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# ECONOMICS FOR EVERYMAN

Concerning your immediate business, you will learn . . . that the beginning of all good law, and nearly the end of it is in these two ordinances, that every man shall do good work for his bread ; and secondly that every man shall have good bread for his work. *John Ruskin.*

You may aim at making a man cultured and religious ; but you must feed him first and you must feed him to the point where he is reasonably happy. *George Bernard Shaw.*

This we commanded you, that if any would not work, neither should he eat. *St. Paul to the Thessalonians.*

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# ECONOMICS FOR EVERYMAN

*By*  
ARTHUR COE



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## PREFACE

THE principal difficulty which stands in the way of obtaining a clear workmanlike understanding of the public affairs of an industrial civilisation, like ours, is that of bringing together its constituent elements, such as currency and wages, in a way which will enable sound operational relationships to be established between them, and thus make it possible to view industry as a balanced whole. Seeking a way to overcome this difficulty one searches in vain through the writings of Karl Marx, Bernard Shaw, H. G. Wells, and other Fabian socialists and scribes of the London School of Economics, and is compelled to conclude that the leaders of this school of thought are essentially critics, who have destroyed with great success, but whose contribution to a better understanding of political economy consists essentially of a critique of industrial relationships, derived from Marx, and the contention that 'the problem of mass production with its possibilities of leisure can be solved only by state ownership of the means of production, that is, by state control and practice of industry, in which the state will allot the product between consumption, capital and investment in the extremist contradiction to the practice of private enterprise'.

Unfortunately the control of industry by the state in this way does not provide a solution to the problems which beset us as a people, and through a just solution to which a wholesome industrial economy can be secured. The judgement of posterity upon the work of these great critics and upon the school of thought they have founded must therefore turn inevitably upon the simple fact that they have failed to see clearly to the root of the matter. This was stated by Aristotle in his treatise on Ethics, and more recently in 1862, by John Ruskin, who wrote, 'I believe the sudden and extensive inequalities of demand, which necessarily arise in the mercantile operations of an active nation, constitute the only essential difficulty which has to be overcome in a *just* organisation of labour'.

It may be contended that it is precisely this difficulty which Socialist planning is planned to overcome. But it is a *just* organisation of labour and of the distribution of its produce which we need,



## PREFACE

and not state direction of labour with the allotment of the product between consumption, capital and investment by the state *in the extremist contradiction to the practice of private enterprise*. The earnest reader will find in this inquiry not only a workmanlike and wholesome concept of the public economy of an industrial civilisation viewed as a whole, but also the justification of Ruskin's belief, and solutions to many vital problems which socialist planning at present ignores, and without which a *just* organisation of labour is impossible.

A. C.

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# INTRODUCTION

## 1. *Economics for Everyman*

THIS is a review of the economic aspects of our industrial civilisation as they affect you and me, in which the word economy is used in its original and true sense, and means the management or stewardship of a house with respect to its means of maintenance or, if you like, with respect to its income, whatever form this may take. And, since when millions live together as a community, family life remains fundamentally the same, the fundamental principles of economy also remain the same. So that in public or political economy, in 'economics for everyman', the principles to be applied remain unchanged however large a community may become, and all true economy begins and ends in the homes of the people. This being so there is no need for us to use involved technical terms, the jargon of experts, or to invent a specially simplified sort of language in order to discuss the economic affairs of families. But, should you believe 'economics' to be a matter for experts only, are you not concerned in equal measure with every other individual in the community with the evolution of socially satisfactory answers to :

(1) How the work which must be done to obtain sustenance for everyone is to be divided up?

(2) How the performance of these tasks is directed so that there is work for everyone to do, and *through work*, food, clothing and all other necessities of life for everyone?

(3) How the commodities thus produced are to be divided up and exchanged, so that, for example, your needs may be met as well as mine?

(4) Of the commodities thus produced how much to each? Is it to be to everyone alike? To each what he can grab? To each as the state decrees? Or, to each as he deserves and in accordance with his needs? For although God in His providence has provided everything needful to all men, He has not provided for us all alike.

These problems rightly understood, embrace the whole public economy of any civilized community.



## 2. *The purpose of this inquiry*

The purpose of this review is to inquire to what extent our present public economy provides socially satisfactory answers to these four questions, and incidentally to ascertain to what extent private enterprise, when rightly understood, is necessary to their effective solution, or whether only some form of collective socialism will enable us to overcome the difficulties involved. For, it is true that private enterprise performs social functions which cannot be effectively initiated in any other way, and there is a grave danger that a lack of appreciation of this fact by 'collective socialists' may have disastrous results for all of us. It is also true that socialism, when rightly understood, performs functions which private enterprise cannot do. If therefore we had to choose between the two, the moot question would be one of deciding which could make the greater contribution to the well-being of the community. But this inquiry shows conclusively that we do not need to make such a choice, for when seen in proper perspective each is complementary to the other, and their rightful spheres do not overlap. Moreover, social enterprise when abused has social consequences which, though different in form, are equally as bad socially as those which follow the abuse of private enterprise. In short, we have to 'put both private and social enterprise into their rightful places in public economy if we are to obtain a stable civilization.

## 3. *The scientific approach to economics*

The essence of the scientific approach lies in the observation of experiments in which the conditions are known within certain limits and the inferences drawn from the results are accepted as being reproducible only *within these limits*. This notion is not, however, applicable solely to the results of purely 'scientific' investigations. A 'Hoover', for example, is designed to be used to sweep carpets only. The size of a grade-A egg falls within certain well-defined limits, and with milk the grades are limited to qualities which, within limits, satisfy certain stated requirements. Also, when an engineer orders, say, a steel shaft, he knows that he cannot reasonably expect to be supplied with one of the exact diameter he requires, so he specifies limits of *plus or minus* so many thousandths of an inch



## INTRODUCTION

within which the actual dimension must fall if the shaft is to satisfy his needs.

The principal difficulty which has held back the natural evolution of a true science of political economy may be said to lie in the application of this notion in economic affairs, as the reproducibility of results in political economy requires that the persons involved shall honestly observe the required conditions, or, put in another way, the limits which have to be observed include moral limits. Hence, in considering any phase of public conduct, such as the supply and control of currency, for example, we have to see, first, that the system itself is an honest one, and, second, that in its operation it does not allow deceit or fraud in monetary operations, and this not by punishments 'designed to fit the crime', but by the operations themselves precluding even a temporary advantage being obtained fraudulently by anyone.

We have also to bear in mind as we proceed that the mere organization of facts into a system does not of itself make the facts more accurate than they were when unco-ordinated. And, conversely, that if a group of scientific facts is organized on an erroneous system the facts remain no less true, though the system be false. Also, that political economy, as taught today, is a curious mixture of such facts loosely associated with a positive jungle of extraordinary theories; advocates of different public economies being distinguished by the use of the same scientific facts to prove the social theories to which they subscribe and to disprove those of their political opponents.

In this inquiry we are not concerned to prove any theories of this kind, but simply to record the facts and the inferences which follow logically from them *when they are approached scientifically and viewed as a whole.*

### 4. *The need to view a political economy as a whole*

When attention is concentrated upon any aspect of political economy the deductions drawn from the relevant facts are true only within the limits observed in the examination. For example, a procedure which may lead to an improvement in the balance sheet of a particular business, which may appear to be socially sound as far as that business is concerned, may have no effect upon the



balance sheet of a country as a whole, the gain being offset by a precisely equal and opposite loss in the affairs of another business within the same community. The important point in public economy is then one of deciding whether this fluctuation has a beneficent or maleficent moral and social effect. If such a change follows the introduction of a better-quality product at the same price, or the same quality product at a lower price, with an equivalent improvement in the lot of the workers concerned, or at any rate no deterioration in their position,<sup>1</sup> then such a change will tend to be wholly beneficent in its effects ; particularly so because of the lead given to the particular trade concerned. It is therefore necessary to avoid reviewing any part of a political economy as something which can be fully considered isolated from the system as a whole.

How then can we conduct an inquiry into our present political economy, which has no formal constitution, and which has reached its present state 'not by the pursuit of any preconceived plan, but by a process of almost haphazard evolution based upon trial and error'<sup>2</sup>? We cannot analyse an aimless economy except for the purpose of seeing in what its lack-of-aim subsists, and the historical approach from this point of view can provide only a record of its development, of its shortcomings and of the social injustices which arise inevitably from them, as Karl Marx and many others have discovered. It cannot supply the rightful aim for the public economy of an industrial civilisation, although it can and has led to the formulation of many social and economic theories. We can, therefore, only proceed Euclid-like by question and answer from one self-evident truth to another, and so build up a socially just and wholesome concept of political economy with which our present formless polity, with its countless contradictions and inconsistencies, can be compared. This procedure also has the merit that it should reveal the evolutionary or revolutionary developments by which we may attain a system of public conduct which will provide socially satisfactory answers to the four major economic problems of an industrial community. In fact, the true aim and form of the public economy of an industrial civilization should emerge.

The first step is to obtain a clear view of the general problem.

<sup>1</sup> There should be an improvement in the lot of the workers in the progressive firm and no deterioration in the lot of the workers in the second, unless the changed position was due to their lack of effort or enterprise.

<sup>2</sup> The Report of the Macmillan Committee on 'Finance and Industry' (1931).



## CHAPTER I

# THE GENERAL PROBLEM

### 1. *The doctrine of economic freedom of Adam Smith*

OUR present economy has been developed without a plan in the belief that there are natural laws which if allowed to operate freely and without hindrance will produce the maximum possible wealth for the nation. And in its application this doctrine has been construed to mean that every individual should have the right to pursue his own self-interest, for 'it is only when this privilege is observed that these natural laws are free to turn his work to the common good'. Under the conditions which then arise government is not concerned with devising ways and means of regulating anything but only with the maintenance of the state as a state, and with maintaining conditions which will impose the minimum possible hindrance to the operation of these natural laws which 'can alone secure the greatest possible wealth for a nation'. The most famous exponent of this 'doctrine of economic freedom' was Adam Smith, whose inquiry into the nature and the causes of the wealth of nations was published in 1776.

### 2. *The 'closed commercial state' of Johann Gottlieb Fichte*

Less than twenty-five years later Johann Gottlieb Fichte in Germany published his *Der geschlossene Handelsstaat* (The closed commercial state). This work contradicted the doctrine of economic freedom of Adam Smith. It was based upon the thesis that 'it is the state alone which unites an indeterminate multitude of human beings into an *enclosed whole*, into a *totality*', in which it is the duty of the state 'to instal each citizen in a possession suitable to him'. Stress is laid upon guaranteeing to each individual his due measure of social security, for in such a community 'it is the duty of the state to see that each man lives as befits him'. A *rigidly planned* corporate economy was therefore to be built up in which uncontrolled individual enterprise was impossible. Fichte wrote, 'each person who proposes to devote himself exclusively



to an occupation should give notice to the government, which will confer upon him the right to do so. But if somebody gives notice in respect of an occupation after the highest number of workers which is legally allowed in it has been reached, then the right shall not be granted him, but much rather shall there be suggested to him other work in which his strength is needed'. That is, all production and trade in such a state would be controlled and supervised by the government.

Fichte saw clearly that a strict internal economic control of this order involves also a rigid supervision of foreign trade and of currency, so he wrote: 'All direct traffic by the citizen with any foreigner should be made impossible. All possibility of world trade rests upon the possession of a medium of exchange that is valid throughout the world, and upon the serviceability of the same for us. The solution therefore requires that all world currency, i.e. all gold and silver, which is in the hands of the citizens, should be taken out of circulation, and exchanged against a new currency, which would be valid only inside the country.'

The amount of trade to be carried on with other countries was to be fixed and the kind of goods to be exported and imported was to be settled, with quotas for each year allotted to each trading concern. This trade was to be conducted no longer by private individuals but by the state. And, in order to complete the isolation of the state Fichte visualized the almost total elimination of imports, remarking that: 'After it has been worked out which branches of occupation can be introduced into the country, the government should promote production with particular regard to the raw materials for those branches of occupation which will assist in the building up of substitutes, if the genuine products cannot be grown or made in this climate.'

He was also clear upon the fact that to be completely successful a closed commercial state must be operated as an indivisible whole. He wrote: 'It is clear from what has been said that if the system be adopted it must be accepted or rejected in all its parts, and no government, indeed, should take up the proposed currency operation as a comfortable means of enriching itself, while on the other hand, neglecting as troublesome the regulation of public affairs, the fixing of prices and the guaranteeing of the position of everyone.' And that a state which is in process of 'enclosing



## THE GENERAL PROBLEM

itself' should enter into its 'natural frontiers', since 'certain portions of the surface of the earth, together with their inhabitants, are patently designed by nature to form political wholes'. A state 'needs an extensive territory which contains within itself a complete and enclosed system of necessary production'. Also, 'thanks to its wealth in cash, a government of this order has the capacity to arm itself to such an extent that it could attain its natural frontiers without bloodshed and almost without a stroke of the sword, more by a march of occupation than a war'. Moreover: 'directly after the occupation of its natural frontiers the same currency operations would be undertaken in the added provinces so that the new citizens would be bound to the mother country by this force, and their means of trading with others *torn* from them'.

Fichte thus formulated the roots of national socialism—a total national autarchy, with a planned economy, state barter agreements, the production of substitute materials, intensive armament, an extended living space, the unresisted occupation of other territory and a cultivated nationalism.<sup>1</sup>

### 3. *The 'classical economists'*

The 'classical economists' is a phrase invented by Karl Marx to describe David Ricardo, and his predecessors, including Adam Smith; that is for the founders of the theories which culminated in what are known as Ricardian Economics. It has also become customary to include in the classical school the followers of Ricardo who adopted 'and perfected these theories'; including, for example, J. S. Mill, Alfred Marshall, F. Y. Edgeworth and Prof. A. C. Pigou. This, by the way, for in this inquiry we are not concerned to restate any particular theories but rather to busy ourselves in a practical way with the economic problems which now endanger our civilization.

It is helpful, however, to note that *The Wealth of Nations* of Adam Smith was published in the same year that John Watt made a steam engine which would really work (1776), and that the theoretical laws and 'principles' which have since characterized

<sup>1</sup> These facts have been unearthed by Rohan D'O. Butler and recently made public in *The Roots of National Socialism*, in which subsequent developments in German philosophical and political thought are traced through to the practical realization of 'national socialism' in Germany.



so-called classical economics arose with the industrial revolution. Also, that although the authors of these works have been influenced to a certain extent by general notions about science, they have not applied scientific method in their inquiries, except in a general sense and to isolated fragments or parts of the subject.

## 4. *Political economy and Karl Marx*

The teachings of Adam Smith and of the classical economists were challenged in this country in the middle of the nineteenth century by Karl Marx and by John Ruskin.

Karl Marx examined the formless political economies of the 1850's and the state of the workers in Great Britain and on the Continent of Europe due to them, and then produced a comprehensive treatise upon a socialism directed to the welfare of the community as distinct from the state, in which the facts he had observed, the labour theory of value of the classical economists, Hegel's interpretation of history, and a 'large and very human dose of sympathy for the workers and of hatred for their exploiters', are inextricably mixed. His work is part scientific observation of economic facts *relating to the middle of the nineteenth century*,<sup>1</sup> part so-called classical economic theory, part contemporary German philosophy with its roots in the writings of Fichte, and part good thoroughgoing propaganda for the improvement of the lot of the labouring classes. He predicted the evolution of a state in which the rich would get richer and the poor relatively poorer. He thought that manual workers would become more and more depressed and discontented and that finally they would revolt and gain control of the state by force of numbers. This, broadly speaking, is what has occurred in Russia. But it is not what has occurred in Britain. Karl Marx derived the concept of dialectical materialism which lies at the root of his teachings from the German philosopher Hegel, he reasoned in the main as a philosopher and not as a scientist.

## 5. *Political economy and John Ruskin*

John Ruskin viewed the political economy of this country in the same period with the vision of a prophet, and from a consideration

<sup>1</sup> This fact is often overlooked, as also is the profound significance of subsequent changes in industrial administration.



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of man's essential humanity, or from what are usually described as moral and religious (as distinct from theological) considerations. He saw clearly what things were wrong and the practical steps to be taken to put them right. He reasoned as a scientist, a fact which has been overlooked. The most important part of his contribution to the study of economics is a body of definitions which occur in *Munera Pulveris* ; six essays which he described as ' the first accurate analysis of the laws of political economy to be published in English '.

John Ruskin predicted that a steady and progressive development in the welfare of everyone was to be achieved only by a steady and progressive improvement in the moral culture of individuals, and his political programme of 1862 was designed to assist this process. It demanded : first, training schools for everyone at government expense ; second, the setting up of standards in trade such that only good and true substance could be sold ; third, the abolition of unemployment with sustenance in sickness and disability ; and fourth, that for the old and destitute comfort and homes should be provided. He thus visualised progress in civilisation as it has since actually occurred in this country. He drew his inspiration from the Bible and from the classics. His concern was for the individual, and his political programme was and will ever remain an expression of both the moral and the scientific aspects of the process we call civilization. He wrote : ' The laws which at present regulate the possession of wealth are unjust, because the motives which provoke to its attainment are impure ; but no socialism can affect their abrogation, unless it can abrogate also covetousness and pride, which it is by no means yet in the way of doing. Nor can the change be, in any case, to the extent that has been imagined. Extremes of luxury may be forbidden, and agony of penury relieved ; but nature intends and the utmost efforts of socialism will not hinder the fulfilment of her intention, that a provident person shall always be richer than a spendthrift ; and an ingenious one more comfortable than a fool.'

It is observations such as the last of these which sustain the widespread belief that it is not in the nature of things that the achievement of a sound political economy should involve the regimentation of a people or a bureaucratic control of industry.



✓ 6. *The relationship between the political economy of a country and the distribution of the commodities produced by the labour of its people*

We thus have at one political extreme national socialism. This requires the regimentation of the people and the complete subordination of the individual to the state. The 'closed' commercial state thus produced denies economic freedom to the individual, but it guarantees a measure of economic security to everyone (there is no unemployment). It creates economically privileged classes, and there is always the danger that the direction of the state may become subordinate to the whims and fancies of a privileged person or class. The distribution of the produce of the country is *to each as the state decrees*.

At the other extreme we have a political economy based upon the doctrine of economic freedom usually associated with Adam Smith. This allows economic freedom for a few at the expense of many. The 'open' commercial state thus produced also creates economically privileged classes which tend to rule a country to suit their own ends. There is a large measure of economic security for some but none for others, so that there is always a permanent but fluctuating number of persons unemployed. The distribution of the produce of the country is broadly, *to each what he can grab*.

Between these political economies we have the classless socialist state visualized by Karl Marx which gives economic security to everyone and in which the distribution of the produce of the country is *to everyone alike*, and also the individualist socialist state last visualized by John Ruskin in which everyone is made economically secure by a moral culture which seeks to effect the distribution of the produce of a country *to each as he deserves in accordance with his needs*.

7. *The shortcomings of our present political economy*

We have fought a war rather than have national socialism thrust upon us, and the so-called 'classless' socialist state is equally foreign to the present temperament of a majority of the English-speaking peoples. Yet political economies so based have successfully achieved economic security for everyone in the states which have



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adopted them. On the other hand, the main characteristic of our political economy is that it has been proved to be capable of effecting only a fretful form of economic security, and then for but a limited number of its people.

The shortcomings of our present political economy have been stated rationally in the *Report of the Macmillan 'Committee on Finance and Industry'*, as follows: 'In the development of every civilization there comes a stage when reflection awakens. While a nation is in the making it is so preoccupied with the practical business of making a livelihood and establishing a position that it has no time to bethink itself. Of our own nation it may be pre-eminently said that it has attained its great position not by the pursuit of any preconceived plan, but by a process of almost haphazard evolution based upon trial and error, aided by the practical aptitudes and instincts of our race, and also by certain fortunate accidents in the disposition of natural resources, and by geographical position. There has been little conscious direction of the activities of the nation to definite ends. To this trust in the operation of natural causes we owe the development of our great political, financial and social institutions, and the amazing growth of our financial activities. But we also owe to it our deficiencies, such as our financial instability, our social maladjustments and our slums, and, as a consequence, Parliament finds itself increasingly engaged in legislation which has for its conscious aim the regulation of the day to day affairs of the community, and now intervenes in matters formerly thought to be entirely outside its scope. It is of vital importance that this new policy, while truly promoting liberty by securing better conditions of life for the people of this country, should not deprive them of their initiative and independence which are the nation's most valuable assets.'

The following commentary occurs in *The Report of the Oxford (World) Conference on Church, Community, and State* of 1937.

'The present economic situation is a product of the emancipation of the individual from the social and cultural restrictions of the Middle Ages. In so far as the spirit and the institutions of the feudal order and of the guild system had restrained the free development of human potentialities, the dawning of the capitalist age must be considered a definite step forward in the progress of humanity. This is true of the intellectual as well as of the political and economic



achievements of that age. The system of free enterprise is responsible for that industrial development which has made it possible to overcome the natural scarcity of economic resources by successive technological improvements. It has raised to a considerable degree the general standard of consumption. By the mechanization of industry it has reduced the physical labour of the manual workers and it has brought all parts of the world into interdependence with each other and has made the idea of the unity of mankind a fact of common experience. It was thought at one time that the development of this new economic order would not only improve the material conditions of life but would also establish social justice. This expectation was rooted in the belief that a pre-established harmony would so govern the self-interest of individuals as to create the greatest possible harmony in society as a whole. "Each man, seeking his own, would serve the commonweal." Today this belief is largely discredited.'

The *Macmillan Report* was published in 1931, and we know now that nothing less than the achievement of economic security for everyone will satisfy a rapidly growing majority of the people in this country. We have therefore to decide whether we should adopt a modification of the national socialist or of the Russian socialist models in social planning in order to obtain this, or whether we can achieve this object by a system of conduct which will preserve the essential requirements of individual freedom as we understand them.

#### 8. *The need for the application of scientific method in the solution of economic problems*

The amazing productivity of modern industry is usually attributed to the development of science and to the application of scientific method in industry. In fact, the late Lord Stamp suggested that a moratorium should be declared on inventions and scientific developments generally as the economic order was breaking down under the strain imposed by them. This proposal is a reflex of the fact that although a veritable mountain of books and pamphlets has been written upon economics, it is nevertheless true that no state has yet attempted a solution of the major economic problems of the age by scientific method; that is, by the procedure which has led to the extraordinary productivity of modern industry.



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It has been written that to bring the study of economics into conformity with scientific method, it is necessary to lay aside the abstract definitions which characterise the 'standard works' upon this subject and to apply the operational approach. What does currency do? How are commodity prices actually fixed? What determines the limit to the productivity of industry? What do bankers do, and what practical effect has what they do upon what is done in commerce and industry? Why should there be unemployment when there is an obvious shortage of the primary necessities of life? What would happen if everyone *spent* all the money they received? What would happen if everyone *saved* all the money they received? And so on. This is the approach of the business man, the designer, the skilled workman, and in fact of everyone of a practical turn of mind who does things instead of talking about them, for the supreme scientific test of anything is that it must work. Take for example this approach to an examination of the belief which lies at the root of the political economy of the school of Adam Smith, namely, that there are natural laws which if allowed to operate freely and without hindrance will produce the maximum possible wealth for the nation. If the universe is governed by natural laws, and there is no reason why we should presume otherwise, this is a true statement of fact. But, we know from experience in science that it is necessary accurately to know the particular laws which if observed will produce the maximum possible wealth for the nation, before the conditions under which they will operate can be defined. These conditions must be then rigidly observed if the laws are to operate 'freely and without hindrance'. Indeed, the conditions must be observed if the laws are to operate at all. And from this incontrovertible fact it follows that the doctrine which asserts that each individual should have the right to pursue his own self-interest, because by doing so he leaves these natural laws free to turn his work to the common good, is utterly false both in concept and in practice. That is to say, the belief which lies at the root of our political economy is true; it is in the unscientific application of it that we have failed. What then are the conditions which we must observe if the laws which govern the 'wealth of nations' shall operate 'freely and without hindrance' for us.



## CHAPTER II

# THE RIGHT TO WORK

### 1. *The problem in a nutshell*

WE know from experience that the world is so regulated by eternal laws that a man's labour, *well applied*, is always ample to provide him during his life with all things needful to him and therefore, that a nation's labour *well applied* must be in like manner, amply sufficient to provide its whole population with food, clothing and comfortable habitation. We know also by experience that by these same laws of nature and providence, if the labour of the individual or of the nation be misapplied, or much more if the individual or nation be indolent and unwise, suffering and want result, exactly in proportion to the indolence and improvidence—to the refusal to labour or the misapplication of it. This being so, the economic evils we are concerned to eradicate from civilization can only arise from indolence and improvidence in the application of labour; that is, from a false sense of economy, or if you like, not from social order, but from a lack of it. The first practical step is therefore to distinguish between the true and the false sense of economy.

### 2. *On the use of terms in economics*

So much unadulterated rubbish has been spoken and written upon political and economic affairs that the words used when discussing them have taken on meanings they were never intended to bear. In fact, there are almost as many meanings for many of these terms as there are persons using them. Lancelot Hogben has written<sup>1</sup>: 'Instead of inventing a scientific nomenclature free from extraneous associations, economics borrows its terms from common speech, defines them in a sense different from and often opposite to their accepted meaning, erects a stone wall of logic on concealed verbal foundations, and defies the plain man to scale it. The part of the real world with which economics is concerned is

<sup>1</sup> *The Retreat from Reason.*



bounded above and below by the two covers of the dictionary.' It is thus necessary to define the terms we use as they crop up if the ideas to be expressed are to be made clear, and we must remember that in a true science of economics, validity must rest upon the actual performance of an operation and not upon talking about it.

## 3. *On the meaning of the term economy*

In 1862, John Ruskin<sup>1</sup> wrote: 'We have warped the word economy into a meaning which it has no business whatever to bear. In our use of it, it constantly signifies merely sparing or saving; economy of money means saving money—economy of time, sparing time, and so on. This is a wholly barbarous use of the word, for economy no more means saving money than it means spending money. It means the administration of a house; its stewardship; spending or saving, that is, whether money or time, or anything else, to the best possible advantage.

'In the simplest and clearest definition of it, economy, whether public or private, means the wise management of labour; and it means this in three senses; namely, first *applying* your labour rationally; secondly, *preserving* its produce carefully; lastly, *distributing* its produce seasonably.

'I say first applying your labour rationally; that is, so as to obtain the most precious things you can, and the most lasting things, by it: not growing oats in land where you can grow wheat, nor putting fine embroidery on a stuff that will not wear. Secondly, preserving its produce carefully; that is to say, laying up your wheat wisely in storehouses for the time of famine, and keeping your embroidery watchfully from the moth; and lastly, distributing its produce seasonably: that is to say, being able to carry your corn at once to the place where the people are hungry, and your embroideries to the place where they are gay.' We shall use the term economy in this its true sense.

<sup>1</sup> This work has been built upon definitions originally stated in the clearest possible way by Ruskin. It would therefore be foolish for me to do other than give you the original statements from his political essays as the need arises.



4. *On political economy*

Economy in its ancient and original sense is thus affected by the wise management of labour, and to be specific, private or domestic economy is concerned with the acts and habits of a household, and public or political economy with those of a society or state, with reference to their means of maintenance. *Political economy is therefore neither an art nor a science, but a system of conduct and legislature founded upon science,<sup>1</sup> and which directs the arts.* It is concerned primarily with what people do, i.e. with morals. And, since science is what people know by observation and experiment, and art is what people make, we are concerned with the human qualities which govern what is made, and what is done with the things which are made. The first of these is industry, for if a man is not industrious nothing will be made by him. The second is frugality, for although the fruits of man's labour appear in due season, he cannot predetermine the yield, and so is constrained to place a limit upon what he uses season by season to secure himself against scarcity and famine. The third quality is discretion, for what a man sows that also he reaps.

The foundations of economy, whether domestic or public, are therefore industry, frugality and discretion. These moral qualities appear only in those who practise them, so that the domestic economy of a household and the political economy of a state both arise from the moral culture of a people and not in anywise from any other source. The principles which are right in the administration of a farm, or of a factory, are therefore right also in the administration of a great country, 'for idleness does not cease to be ruinous because it is extensive, nor labour to be productive because it is universal.' There is however one point of difference to be observed between the nation's economy and that of a private man: the private man has authority over his labourers; he can direct them to do what is needed to be done, whether they like it or not; and he can turn them away if they refuse to work, or are disobedient, or quarrelsome. This is an important difference, but it is only that we have learnt the necessity of authority in farm, in factory, in fleet or in army, and that we refuse to admit of the necessity for any discipline whatever in the body of the nation.<sup>2</sup>

<sup>1</sup> *A Joy for Ever*, by John Ruskin.

<sup>2</sup> *Munera Pulveris*, by John Ruskin.



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A point of view which two world wars has made untenable for the future, so that we shall need to ascertain the limits which must be placed upon what people do, in order to provide a livelihood for everyone.

### 5. *The dividing up of labour*

In its original sense political economy consists in the direction of the labour of a nation with respect to its means of maintenance, and, by maintenance, is to be understood the support of its population in healthy and happy life. It is not the object of political economy to increase the numbers of a nation at the cost of common health or comfort; nor to increase indefinitely the comfort of individuals by sacrifice of surrounding lives, or possibilities of life. Nor is it the object of political economy to facilitate the accumulation of money or of exchangeable property, for if all the money in the country were suddenly destroyed, the majority of the population would be very little, if any, worse off.

It is thus part of the work of the political economist to determine what are in reality useful or life-giving things, and by what degree and kinds of labour they are attainable and distributable, for, as Bernard Shaw has so ably put it: 'There can be no loaves without farmers and bakers, and without incessant labour we should starve. If anyone is idle, someone else must be labouring for both, or there would be nothing for either of them to eat.' The burden of labour is imposed upon us by nature, and in civilisation labour has to be divided up before the goods which it produces can be divided up and distributed.

### 6. *On applying labour rationally*

It is natural that men should devote themselves to the labour they like best, so that as the needs of human society became more complex, it gradually became impossible for the produce of the labour of any man to satisfy more than a fraction of his own needs. He had to supply the greater part of them by exchanging the surplus part of the produce of his own labour for such parts of the surplus produce of other men's labour as he had occasion for. This natural tendency has thus become the main principle underlying



the direction of labour in industry. But, in a works making bomber and fighter aircraft, the management does not allow the men in the various departments to make the parts they like to labour upon best, or to please themselves as to how many of each part they will produce. On the contrary, having accepted the principle of the division of labour, the management accepts the responsibility for its direction and co-ordinates the activities of the whole factory, so that precisely the right number of parts reach the assembly lines in a continuous and unbroken stream. The management knows, and every man in the works knows, that this must be done or there would be a 'laying off of labour' in some departments and overtime in others, with a lower output of finished goods from the factory as a consequence. The division of labour thus involves co-ordination in its direction if the work to be done is to be effectively and equitably divided up.

### *7. The first object of all labour*

The first object of all labour—not necessarily the principal one, but the first and necessary one—is to provide food, clothing, lodging and fuel, for every member of the community. That is, a nation requires first, food, clothing, lodging and fuel for everyone, and other things thereafter. How is this balancing of first and second requirements to be effected? Clearly, it can only be done in precisely the same manner as in any household or factory—by co-ordinating the direction of the labour available to this end. Unfortunately manufacturers and engineers who have established the paramount importance of this principle in factories usually refuse to admit the need for its application to the economy of the nation as a whole, generally on the ground that any co-ordination here is an unwarranted interference with the 'sacred' right of the individual to direct his labour as he pleases and to what end he chooses. But in a true political economy there is no such sacred right of the individual, for immediately an individual ceases to be completely self-supporting he is at once dependent upon someone somewhere exchanging his surpluses for the commodities he needs which he no longer produces for himself. He must, therefore produce surplus goods which are in demand, or he will be unable to exchange them with anyone, for he cannot direct his



labour as he pleases and to what end he chooses, without incurring the risk of starvation.

Scientifically, this point of view is also untenable, for if we accept the principle of the division of labour, we must also accept as a corollary the principle of co-ordination in its direction, if the conduct which results is adequately to provide for every member of a community.

### *8. The function performed by monopolies, trusts and price-fixing rings*

The lack of a co-ordinating power in the direction of the labour of a nation leads to the formation of monopolies, trusts, amalgamations and price-fixing rings, all of which are primarily concerned with effecting such a measure of co-ordination in production in the industries concerned as will give a greater sense of security to its members. It is true that these so-called 'vested interests' operate very often to the general detriment of the community as a whole, but this does not invalidate the fact that the moral justification for their formation is that the division of labour imposes upon the state the responsibility for co-ordinating the general direction of labour in industry, and an adequate organisation has not been set up for this purpose. What is wanted is a system to effect co-ordination in the direction of labour power in industry, which will give the requisite security both to industrial enterprise and to the labour so employed. There will then be no justification for the continuance of private monopolistic price-fixing rings and the like, or for the legislature to allow such conduct.

### *9. The paternal aspect of political economy*

The co-ordination of labour power was effected paternally in feudal times, and the breakdown of this rigid system began with the shortage of labourers after the Black Death of 1348, although its disintegration was brought about principally by the subsequent discharge of services by money instead of by labour or in kind. The political economy of those days was based upon classical and religious teachings, and up to the end of the eighteenth century government remained essentially paternal in character. That is



to say, it was based upon the conviction that the affairs of a country should be directed and controlled by its government in much the same way as the head of a household directs and controls his estate. But, at the end of this century restrictive rather than constructive measures had become the rule. Industry was being suffocated by minute regulations, by monopolistic companies, and by the degeneration of the craft guilds which had become oppressive and exclusive bodies with an hereditary and caste-like organization. 'Paternal control' had given place to control by a group of officials. That is, government became a bureaucracy, and the reaction which destroyed this state of affairs did not effect a reversion to a true paternalism, but a conversion to a state with no control whatsoever,<sup>1</sup> that is with government based upon the doctrine of economic freedom associated with Adam Smith. This being so, it is important to understand the practical significance of the truly paternal aspect of government in its original classical and religious sense. This was clearly stated, with its political implications, by John Ruskin, whose political essays sprang from this twin source.

#### 10. *The social significance of the paternal aspect in political economy*

The social significance of true paternalism in a nation's economy was stated by John Ruskin in 1862 to be as follows<sup>2</sup>:

'First, that there should be training schools for youth, established at government cost, and under government discipline, over the whole country; that every child born in the country should, at the parents' wish, be permitted (and, in certain cases, be under penalty required) to pass through them; and that, in these schools, the child should . . . imperatively be taught, with the best skill of teaching that the country could produce, the following three things:

- (a) the laws of health, and the conduct enjoined by them;
- (b) habits of gentleness and justice; and
- (c) the calling by which he is to live.'<sup>3</sup>

<sup>1</sup> The so-called doctrine of *laissez-faire*.

<sup>2</sup> *Unto this Last*, by John Ruskin.

<sup>3</sup> It is helpful briefly to survey the progress made since this was written in 1862. It has been justly observed that public provision for the education of the people of Britain is not the product of any plan. . . . The Elementary Education Act, 1870, for example, was designed to complete the voluntary system and



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There has been a steady progress towards the achievement of these things since the passing of the Elementary Education Act of 1870.

‘Secondly—that, in connection with these training schools, there should be established, also entirely under government regulation, manufactories and workshops, for the production and sale of every necessity of life, and for the exercise of every useful art. And, *that interfering no whit with private enterprise, nor setting any restraints or tax on private trade, but leaving both to do their best, and beat the Government if they could*,—there should, at these government manufactories and shops, be authoritatively good and exemplary work done, and pure and true substance sold; so that a man could be sure, if he chose to pay the government price, that he got for his money bread that was bread, ale that was ale, and work that was work.’

This programme is being achieved in a somewhat different manner, namely, by the setting up of measures of quality in all branches of human activity just as quickly as scientists can devise standards for them, and the public can be educated in their use.

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fill up the gaps, not to supplant it, but the Act of 1876 embodies the declaration that ‘it shall be the duty of the parents of every child to cause such child to receive efficient elementary instruction in reading, writing, and arithmetic . . . under penalties . . . and an employer was also made liable to a penalty who employed a child between the ages of 10 and 14 who had not obtained the required certificate of proficiency in these subjects, or of attendance at a certified school.

By 1880 the country possessed a national compulsory system of elementary education. Then in 1889 occurred the first step in the municipal control of secondary education—the Technical Instruction Act, relating to technical and manual instruction. The Board of Education was created in 1899, and the Education Act of 1902 laid down far-reaching general principles of administration relating to elementary education, and the development of higher education. The Act permitting the feeding of school children by local education authorities is dated 1906, and the Education (Administrative Provisions) Act, 1907, laid upon the same authorities the new duty of providing for the medical inspection of all children attending public elementary schools, a departure which was significant of a growing sense of the importance of physical culture and hygiene.

The Education Acts of 1918 and 1921 rounded off these developments, by raising the compulsory school age for education from 12 to 14, with power to the local authority by by-law to extend that age to 15, by the abolition of part-time attendance; by emphasis on physical training and the social side of education; and by the institution of a compulsory system of part-time education after the close of the elementary school period. Unfortunately financial difficulties have prevented the nation from making this new system a general or an efficient one. But there has emerged from this not only a growth of secondary and technical education, but also the organisation of classes of a purely university tutorial character by bodies like the Workers’ Educational Association.



In industry we have the work of the Ministry of Agriculture and Fisheries ; of the National Physical Laboratory ; of the Department of Scientific and Industrial Research ; of the Medical Research Council ; of the British Standards Institution ; and of innumerable professional and trade bodies and institutions all directly or indirectly concerned with raising the standard of the quality of the produce of industry. There are also the food laws, with National marked beef, graded eggs, certified milk, and so on, all of which are concerned that the public shall obtain for its money, ' bread that is bread, and ale that is ale '. All these developments and the experimental stations of the Ministry of Agriculture and Fisheries ; of the National Physical Laboratory ; and of the Fuel Research Board, are excellent examples of the paternal aspect of government directed to improving the standard of living, and the condemnation of fraud.<sup>1</sup>

' Thirdly,—that any man, or woman, or boy, or girl, out of employment, should be at once received at the nearest government school, and set to such work as it appeared, on trial, they were fit for, at a fixed rate of wages determinable every year ; —that, being found incapable of work through ignorance, they should be taught, or being found incapable of work through sickness, should be tended ; but that being found objecting to work, they should be set, under compulsion of the strictest nature, to the more painful and degrading forms of necessary toil . . . (such danger being, however, diminished to the utmost by careful regulation and discipline) and the due wages of such work to be retained—cost of compulsion first abstracted—to be at the workman's command, so soon as he has come to sounder mind respecting the laws of employment.'

In place of this procedure which would secure to everyone the right to work, there have been developments in social insurance and industrial welfare to mitigate the evils which we now know inevitably accompany the haphazard application of labour power. These excellent, but nevertheless stop-gap arrangements, are gradually bringing about a general realization of the true significance of the fact that every worker is an asset to the industry he serves.

<sup>1</sup> It is noteworthy that it has been found necessary in Socialist Russia to open government shops for the specific purpose of establishing standards of quality for commodities at reasonable prices.



That when he suffers a loss, the industry he serves also suffers a loss, and as this reduces the total produce available for distribution to the community as a whole, it is also a direct loss to the state. Unemployment insurance, as practised, is thus seen to be an example of false paternalism, which serves also to sustain the illusion that money need have no relationship with production, and reduces the function of the labour exchange to that of a dump where labour may be picked up or put down at will, without regard to the moral issues involved. To be truly paternal a country must put its sons to work.

‘Lastly,—that for the old and destitute, comfort and home should be provided ; which provision, when misfortune has been by the working of such a system sifted from guilt, would be honourable instead of disgraceful to the receiver. For a labourer serves his country with his spade, just as a man in the middle ranks of life serves it with sword, pen or lancet. If the service be less, and, therefore, the wages during health less, then the reward when health is broken may be less but not less honourable ; and it ought to be quite as natural and straightforward a matter for a labourer to take his pension from his parish, because he has deserved well of his parish, as for a man in higher rank to take his pension from his country, because he has deserved well of his country.’

It has always been the view of the controlling financial interests, that the country cannot afford pensions for everyone. A point of view tantamount to saying that the country cannot afford to maintain its old folk. If this were true, and not a mere fiction, and this were a truly humane society, it would be germane to consider how a less cruel death than slow starvation might be imposed, in order to be rid of them.

Put in another way, if a man’s labour well applied is always ample to provide him during his life with all things needful to him, then only the misapplication of his labour or improvidence will leave him wanting in infirmity or old age. This is true, however, only if it is possible for each man to provide for all his requirements himself, as immediately the principle of the division of labour is applied to effect the satisfaction of his wants *with hours of labour fixed for him*, we have to distinguish between the providence of individuals and the providence then exercised in the communal division of labour, for which the individual cannot be held to be



personally responsible. Moreover, the necessities of life cannot be kept long enough to allow anyone to retire for very long when the division of labour is not practised. So that rightly understood the idea of retiring at a certain age is not a natural one, but has arisen with civilisation; and the providence of individuals is not therefore the predominating factor in this particular issue. There is consequently no case for the granting of pensions to a few at the expense of the many. Actually, relatively few pensions have been so granted. What has happened is that the need for this collective provision is realised by everyone, but only the classes of workers who have wages sufficiently above the subsistence level to demand collective provision on a contributory basis, or workers and officials so placed that they can bring them about for themselves at the public expense,<sup>1</sup> are able to obtain them.

## 11. *The moral basis of political economy*

The true basis of political economy thus resides in the industry, frugality and discretion of a people, and if their application is to be truly effective it must be in honest pursuits, for a man may apply his industry to the practice of deceit and fraud calculated to enrich only himself at the expense of others. In visualizing a system of public conduct we are therefore concerned to create and sustain a firm belief in common honesty and the working power of it; for it is clearly this faith which it is manifestly the first business of political economy to establish and keep.

If then a true political economy cannot be sustained unless the people be honest, it is clearly the first function of government to effect a system of public conduct which will promote this quality in individuals, and to discourage with the utmost severity, if this should be necessary, every form of deceit and fraud.

## 12. *A declaration of the rights of man*

The beginning of the line of thought which was summarized in so practical a way by John Ruskin is to be found in the writings

<sup>1</sup> It should be clear that unless every member of the community receives a pension at a retiring age, in keeping with his standard of living, those who are so favoured are directly or indirectly indebted to the community as a whole. (This was written in 1941.)



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of Plato, and in the religious and political teachings of many lands, including the Hebrew prophets. The same truths have been amplified and stated afresh in less palatable language ; that is, in terms of contemporary political thought, by Bernard Shaw, and many others. In this connection the late H. G. Wells pointed out that at various crises in the history of our country, beginning with Magna Carta and continuing through various Bills of Rights, it has been our custom to produce a specific declaration of the broad principles on which our public and social life is to be based, and to abide by that as our fundamental law. In his view the time was opportune for such a statement, and he and his collaborators therefore drafted a new declaration of the rights of man, which sets out in a general but practical way the principles which we know by experience must become the foundation of social relationships for the future, if civilization is to survive.<sup>1</sup> Politically this is the 1941 equivalent of the 1862 statement of Ruskin, and the first five of its ten divisions declare :

(1) That every man is joint heir to all the resources, powers, inventions and possibilities accumulated by our forerunners, and entitled without distinction of race, colour or professed belief or opinions, to the nourishment, covering, medical care and attention needed to realise his full possibilities of physical and mental development and to keep him in a state of health from his birth to death.

(2) That he is entitled to sufficient education to make him a useful and interested citizen, and further that special education should be so made available as to give him equality of opportunity for the development of his distinctive gifts in the service of mankind, that he should have easy access to information upon all matters of common knowledge throughout his life and enjoy the utmost freedom of discussion, association and worship.

(3) That he may engage freely in any lawful occupation, earning such pay as the need for his work and the increment it makes to the common welfare may justify. That he is entitled to paid employment and to a free choice whenever there is any variety of employment open to him. He may suggest employment for himself and have his claim publicly considered, accepted or dismissed.

(4) That he shall have the right to buy or sell without any discriminatory restrictions anything which may be lawfully bought or sold, in such quantities and with such reservations as are compatible with the common welfare.

(5) That he and his personal property lawfully acquired are entitled

<sup>1</sup> *The Rights of Man*, by H. G. Wells.



to police and legal protection from private violence, deprivation, compulsion and intimidation.

This declaration is perhaps more grown up in the modern political sense than that of Ruskin, but it is much less specific or practical. Both are based upon the fact that a nation's labour *well applied* is always sufficient to provide all its people with all the good things needful to them *from the cradle to the grave*. Both insist upon the recognition of the right of the individual to work, and to sustenance when unable to work.<sup>1</sup> And, implicit in both declarations is the recognition of the sacred and eternal right of the individual to the possession of all the good things he has honestly obtained.

More recently we have also America's nine-point plan for 'a better world'. This originated with the U.S. National Resources Planning Board and was presented to Congress by the late President Roosevelt. The nine points include :

- (1) The right to work usefully and creatively.
- (2) The right to fair pay, adequate for the necessities and amenities of life, in exchange for work, ideas, thrift and other socially-valuable services.
- (3) The right to adequate food, clothing, shelter and medical care.
- (4) The right of security with freedom from fear of old age, want, dependency, sickness or unemployment.
- (5) The right to live in a system of free enterprise which shall, nevertheless, be free from compulsory labour, from irresponsible private power, from arbitrary public authority and from unregulated monopolies.

## 13. *The outlook of the Church*

In Part V of the *Report of the Oxford (World) Conference on Church, Community and State*, of 1937, it was suggested that Christian teaching should deal with ends, standards or principles, in the light of which every concrete situation and every proposal for improving it should be tested. Five such ends or standards were put forward as applicable to the testing of any economic situation, and the vital points of immediate practical importance in them, are :

<sup>1</sup> With Ruskin the right to sustenance is a reward for work done or services to the community, but with the moderns it tends to become a birthright.



## THE RIGHT TO WORK

(1) To every member of the community there must be made open a worthy means of livelihood, and the possibilities of amassing private accumulations of wealth should be so limited that the scale of social values is not perverted by the fear and the envy, the insolence and the servility, which tend to accompany extreme inequality.

(2) Regardless of race or class every child and youth must have opportunities of education suitable for the full development of his particular capacities.

(3) Persons disabled from economic activity, whether by sickness, infirmity or age, should not be economically penalized on account of their disability.

(4) The working man, whether in field or factory, is entitled to a living wage, wholesome surroundings and a recognised voice in the decisions which affect his welfare as a worker.

It will be observed that these points are in agreement with the political programme of John Ruskin, with the paragraphs quoted from the proposed 'declaration of rights' set out by H. G. Wells, and with the points taken from the American Nine-point Plan. If these were achieved we should obviously obtain the economic security which everyone is seeking.

### 14. *Summary*

What we require is an honest system of public conduct or political economy which will secure

(1) the right to work;  
and, through work

(2) the right to medical care and sustenance when unable to work; and

(3) the right to an adequate pension when too old to work, for everyone.

In the achievement of these three things, everyone must be able to engage freely in any lawful occupation, and have the right to buy or sell, without any discriminatory restrictions, anything which may be lawfully bought or sold, in such quantities and with such reservations as are compatible with the common welfare. Or, as the Americans have it—everyone should have the right to live under conditions which are free from compulsory labour, from socially irresponsible private power, from arbitrary public authority and from unregulated monopolies.



### CHAPTER III

## THE NEED FOR A SCIENTIFIC STANDARD FOR CURRENCY

### 1. *The problems created by the division of labour*

THE conduct of an industrial civilized community is dominated, first, by the need for the division of labour, and second, by the conditions brought about by this division. So that in building up a rational system of conduct which will secure the aims in view, we must first of all understand the nature of the problems thus created.

The division of labour raises four problems :

(1) How the work to be done is to be divided up. The vital point here is that it is implicit in life that men must be allowed to devote themselves to the labour they like best,<sup>1</sup> as far as this is available for them to do. And, since the primary object of work is to produce not goods or money but contented human beings, there should be no regimentation in the application of labour power.

(2) How co-ordination in the direction of labour power is to be effected so that there is work for everyone to do. This is one of the major problems which we have to solve.

(3) How much to each. Since the needs of no two individuals are necessarily the same there are as many possible answers to this question as there are human beings. Hence, in a civilised community the sharing out of goods as they are produced can be only by agreement among those who produce them. This issue will be therefore decided by the quantity of goods produced, and the needs or moral culture of those who make and control them. And, since there is no uniformity in needs, in moral culture, or in the productivity of different individuals, an infinite variety of agreements is possible and indeed desirable.

In this connection governments by factory and other Acts can lay down a basis for the conduct of industry, which by the discipline it imposes improves the moral culture of employers and employed

<sup>1</sup> It is interesting to note that a committee of the House of Commons in 1604 stated : ' All free subjects are born inheritable, as to their land and also as to the free exercise of their industry, in those trades whereto they apply themselves and whereby they are to live.'



alike. It can insist that a worker, whether in field or factory, is entitled to a living wage, wholesome surroundings, and a recognized voice in the discussions which affect his welfare as a worker, in return for a *conscientious discharge* of certain duties or operations, but not if the worker be idle, disobedient, quarrelsome or obstructive. It thus appears that there can be no single answer to this question, but only a myriad of constantly changing answers as the moral culture of a people grows under the influence of a wise and beneficent political economy.<sup>1</sup> But, when agreement has been reached upon how much to each in any factory or industry there still remains the problem as to how the agreement is to be made effective. That is :

(4) How the goods produced are to be divided up and then interchanged so that the needs of different individuals can be met, for the baker of bread must have butter also. This is a technical question which can be tackled by scientific method and simplified to the point where the answer is not a matter of opinion but only of practical proof.

The problems, how the work is to be divided up, and of the goods produced how much to each, are thus seen to be so general in character, and so intimately bound up with moral considerations, that they are actually the factors which set the limits within which the specific problems of co-ordination in the direction of labour, and the dividing up and distribution of goods must be solved. For example, the solution to the problem of co-ordination must not tend to restrict the liberty of the individual in choice of work, and the solution to the problem of dividing up and distributing the goods produced must be capable of making effective any agreements which may be made relating to how much to each, without interfering with the right to work and the right to subsistence when unable to work, of anyone.

Moreover, since it is necessary to co-ordinate the application of all labour power, that is of labour employed in both production and distribution, the problem of co-ordination is actually a part of the general problem of dividing up, of distributing, and of interchanging goods. We can therefore proceed at once to the problem of how the goods produced are to be divided up, distributed and exchanged within the limits imposed by these moral considerations.

<sup>1</sup> The practical problems involved are considered at a later stage.



2. *Commodities have to be divided up as quickly as they are produced*

The vital point in this matter of dividing up, distributing and exchanging the goods produced by a community is that this has to be done immediately they are available for use. Bernard Shaw has written : ' Some people imagine that because they can save money that the wealth of the world can be stored up. Stuff and nonsense. Most of the wealth that keeps us alive will not last a week. The world lives from hand to mouth. A drawing-room poker will last a life-time ; but we cannot live by eating drawing-room pokers ; and though we do all we can to make food keep by putting eggs into water-glass, tinning salmon, freezing mutton, and turning milk into dry goods, the hard fact remains that unless most of our food is eaten within a few days of its being baked or killed it will go stale or rotten, and choke or poison us. Even our clothes will not last very long if we work hard in them ; and there is the washing.

' Every year must bring its own harvest, and its new generations of sheep and cattle ; we cannot live on what is left of last year's harvest ; and as next year's does not yet exist, we must live in the main on this year's, making things and using them up, sewing and baking, breeding and butchering, soiling and washing, or else dying of dirt and starvation. What is called saving is only making bargains for the future . . . I cannot save until I find somebody else who wants to spend . . . Peter must spend what Paul saves or Paul's savings will go rotten. Between the two nothing is saved. The nation as a whole must make its bread and eat it as it goes along. A nation which stopped working would be dead in a fortnight even if every man woman and child in it had houses and lands and a million of money in the savings bank.'

We shall return later to the question of savings, meanwhile it is sufficient to be clear upon the fact that *the produce of a country has to be divided up and distributed just as quickly as it is produced*. This is effected by the use of money, so that the next step is to consider how the production and circulation of money must be effected in order to secure the ends we have in view.

3. *Is money a measure of value ?*

Money is often described as a measure of value. But what is value ? The only completely satisfactory definition of value known



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to me is that given by Ruskin, who wrote: 'Value signifies the strength, or availing of anything towards the sustaining of life, and is always twofold; that is to say, primarily, INTRINSIC, and secondarily, EFFECTUAL.

'The reader must, by anticipation, be warned against confusing value with cost, or with price. *Value is the life-giving power of anything; cost, the quantity of labour required to produce it; price, the quantity of labour which its possessor will take in exchange for it.*

'Intrinsic value is the absolute power of anything to support life. A sheaf of wheat of given quality and weight has in it a measurable power of sustaining the substance of the body; a cubic foot of pure air, a fixed power of sustaining its warmth; and a cluster of flowers a fixed power of enlivening or animating the senses and heart.

'It does not in the least affect the intrinsic value of the wheat, the air, or the flowers, that men refuse or despise them. Used or not, their own power is in them, and that particular power is in nothing else.

'But in order that this value of theirs may become effectual a certain state is necessary in the recipient of it. The digesting, breathing and perceiving functions must be perfect in the human creature before the food, air or flowers can become of their full value to it. The production of effectual value, therefore, always involves two needs: first, the production of the thing essentially useful; then the production of the capacity to use it. When the intrinsic value and acceptant capacity come together there is effectual value, or wealth, where there is either no intrinsic value, or no acceptant capacity, there is no effectual value; that is to say, no wealth. A horse is no wealth to us if we cannot ride, nor a picture if we cannot see, nor can any noble thing be wealth except to a noble person. As the aptness of the user increases, the effectual value of the thing used increases; and in its entirety can co-exist only with perfect skill in use, and fitness of nature.'

We do not know how to measure the intrinsic value of commodities,<sup>1</sup> and even if this were possible, their effectual value would still depend for each one of us upon our acceptant capacity to use them. Moreover, experience of life indicates that the acceptant

<sup>1</sup> The only rational basis for a discussion of value is therefore by scientific research into the character of human requirements and the material resources available for their gratification.



capacities of no two members of a community are the same ; so that although these definitions are true they cannot be used as a basis for the exchange of goods. It is clear, however, that both intrinsic value and acceptant capacity enter in some degree into the factor in supply which we call demand. We shall not therefore speak of the values of commodities in this inquiry, but only of their worth in exchange.

#### 4. *Money as a medium for the distribution and exchange of goods*

What then is money ? Money is the means by which we divide up the claims to the possession of goods *as they are produced*. It is therefore not merely a means of exchange, but also a documentary expression of legal claim. It is not goods but a documentary claim to goods, being the sign of the relative quantities of goods to which at a given time, persons, or societies, are entitled. For, as Ruskin pointed out, if all the money in the world, notes and gold, were destroyed in an instant, it would leave the world neither richer nor poorer than it is. It would only leave the individual inhabitants in different relations.

It is customary to speak of a man who owns a house, land, and other property for which he has paid, say, 10,000 pounds, as being worth 10,000 pounds. Nothing of the kind. Such a man does not possess legal claims upon the community for 10,000 poundsworth of goods, he did once, but he is now simply a member of the community who has had legal claims for 10,000 poundsworth of goods *fully discharged*. He cannot have both the money (legal claims to goods) and the goods as well. You can say that a man has property for which he paid 10,000 pounds, but he can only be worth 10,000 pounds if he can persuade someone with such a legal claim to goods to exchange this for his property, and then *only after the exchange has been effected*. You can assess the worth of a man's goods at what he paid for them if you like, provided it is clear that it is an assessment based upon the supposition that a purchaser could be found for them at the price he paid for them. The practical test here is that if everyone with property tried to exchange it for money (legal claims to goods) at the same time, they could only receive a fraction of the sums they paid for them.

It has also often been said that the worth of money will remain



unchanged so long as the proportion of the quantity of existing money to the quantity of *available labour* remains unchanged. The unemployed constitute a vast reservoir of available labour; is money then to be minted and issued in proportion to the quantity of unemployment (if you can find a way to measure this) as well as being drawn against the goods produced? You cannot eat unemployment, and if you issue money against this available labour *in order that it shall be put to work* you are issuing money to exchange the goods produced by this labour; just this and nothing more.<sup>1</sup>

The use of money as a medium for effecting the distribution and exchange of goods will be clear from the following example. If there are 1,000 different groupings of commodities and each grouping has the same worth in exchange, the issue of 1,000 documentary claims (say, pound notes) to those entitled to these goods, will obviously serve to effect their distribution and exchange. And, the exchanges will be still more effective if the pound notes can be subdivided to allow of the interchange of smaller units than these groupings. You may now, however, ask what happens to the documentary claims (pound notes) when they have effected this distribution and exchange, for they are now documentary claims to precisely nothing. Clearly, the claims having been met these documents should be cancelled, or taken back to the original source to be reissued when it is required to effect the distribution and exchange of another 1,000 groupings of goods, and so on.

## 5. *The use of gold in currency*

The cancellation of documentary claims to goods by goods was originally affected by using one commodity in terms of which all other commodities were exchanged, for if one commodity is exchanged for another, the problem of cancellation does not arise. In course of time gold became the principal commodity chosen for this purpose throughout the world,<sup>2</sup> because in theory it is a com-

<sup>1</sup> But to issue money before the goods it represents are made is foolhardy. Is a race of human beings known who given the money first, can be relied upon to 'produce its equivalent in goods' afterwards? It is not that human beings are inherently dishonest but that they naturally tend to do as little work as they need to, and there is also the belief that money is a thing apart. What is the use of running after a bus when you have caught up with it?

<sup>2</sup> In the Middle Ages, the question was how best to secure an honest metallic currency. For over three centuries England had a currency in which the exchange rates of gold and silver were fixed by Royal proclamation, but as the demand for



modity acceptable to everyone,<sup>1</sup> and it does not deteriorate. Gold coins were therefore not only a documentary claim to goods but also goods themselves; moreover since every sovereign had the same weight or quantity of gold in it, this quantity had a fixed worth in terms of money,<sup>2</sup> and all goods exchanged by its use had automatically a worth in exchange in terms of gold. This disposed of the problem of cancellation, in fact it never cropped up, but the problem remained of how to obtain and maintain just sufficient coins in circulation to effect the exchange of the goods produced.

#### 6. *The problem of balancing the goods produced by currency*

Money is a documentary claim to the possession of goods, but its worth in exchange relative to the goods produced can remain the same only so long as the proportion of the existing money (claims to goods) to the quantity of existing goods remains unchanged. If the quantity of goods awaiting exchange increases, but not the money, the worth in exchange of the money increases<sup>3</sup>; but if the quantity of money increases, and the quantity of goods available for exchange does not increase in proportion, the worth of the money decreases. This means that since goods have to be divided up immediately they are made, the amount of money available for their division at the time decides how the claims to the goods will actually be satisfied. In other words, no matter how equitable the distribution of the goods agreed upon by the producers of them, the actual distribution may be quite different if an exact balance is not maintained between the goods produced and the money available for their exchange.

This is a matter which affects the standard of living of *every*

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these metals fluctuated, their relative worth changed, and it was therefore impossible to keep the two metals in effective circulation. This led to the use of the composite legal tender system in which one metal is chosen as the standard and is legal tender to any amount; other metals being used as a token currency of *limited legal tender*. In the United Kingdom gold was chosen for the standard coins, and silver and copper for the payment of smaller amounts.

<sup>1</sup> The usual expression here is that gold is 'universally desired'.

<sup>2</sup> One ounce of gold yielded £3 17s. 10½d. worth of gold coins.

<sup>3</sup> You must remember, that although this applies only to perishable goods which must be sold at once, those who offer other goods for sale are concerned to exchange them for money with which to purchase perishable foodstuffs, fuel and the like.



person in a country. For example, if by reason of the wages agreements he had entered into, a workman received eleven shillings as wages in a week when the money in circulation amounted to twelve shillings for every eleven-shillingsworth of goods available for exchange, then twelve shillings would purchase only eleven-shillingsworth of goods. His real wages (measured in purchasing power) would be therefore elevenpence in the shilling or ten shillings and one penny.

Bernard Shaw has summed up this position substantially as follows : ' Just as a needle is used for sewing and is of no legitimate use for anything else, so coins and notes are used for buying and selling, and are of no use for anything else. One coin can be passed from hand to hand and effect many sales, just as one needle can be used to hem many handkerchiefs. You cannot say " There are so many handkerchiefs which must be hemmed, so we must have as many needles as there are handkerchiefs," or " That there are so many loaves of bread to be sold so we must have coins and notes exactly equivalent to the price to be paid for every one of them." *No government or person on earth can say beforehand how many needles or coins will just be enough.*<sup>1</sup> You can see how many loaves will be required because they can only be eaten once ; but needles, coins, and treasury notes are used over and over again.<sup>2</sup> How then is a government to decide how many coins and notes it shall maintain in circulation at any time ? And how is a supplier of needles to decide how many needles he shall make ? '

These questions are not quite the same although they resemble one another. There is a satisfactory answer to the needle problem, and we are trying to find one to the currency problem.

## 7. *The balancing of currency against goods*

Manufacturers solve the ' needle ' problem in this way : A manufacturer of needles first places his product upon the market at a price which yields a commercially sound return. This price

<sup>1</sup> The italics are mine, for it is important that you should appreciate the present outlook.

<sup>2</sup> Eric Gill wrote : ' And we have got to get it clear in our minds that if we agree that a loaf of bread is worth fourpence, then there ought to be as many fourpences as there are loaves of bread. And so with everything else.' We shall see later that Gill is right and that Shaw is simply stating a common belief.



then holds until his output has grown to the point where he cannot dispose of all the needles he makes without first lowering the selling price of them. This he does, selling more and more needles, and charging less and less for them, until he reaches the limit of decrease in cost of production with increase in output, or until the limit to the demand for needles is reached independent of price considerations. The needle manufacturer then makes no more needles than he can sell at the price then operating.

A government which adopts gold coins as the basis for currency tries to maintain a fixed rate of exchange between gold and goods in a similar manner. But as we no longer possess sufficient gold,<sup>1</sup> no useful practical purpose is to be served by a consideration of this procedure. The only point to note is that it has not been found possible to maintain a really satisfactory balance by it. In other words, we are again faced with finding a solution to the two basic problems which must be solved if an honest currency is to be secured. These are: *the cancellation of claims to goods as they are satisfied*, and *the maintenance of an amount of money in circulation which will at all times balance the goods to be distributed and exchanged*.

It is, however, desirable to dissolve the mystery with which the currency has become invested, before we proceed to inquire how these problems might be solved.<sup>2</sup> How does the present currency work?

### 8. *The use of a paper currency*

We do not nowadays use gold coins as currency. We use pieces of paper, with the words *one pound* or *ten shillings* printed on them, and by a right conferred by certain Acts of Parliament, if you owe anyone a pound you can pay him by handing him a pound note, and he must accept it as a full discharge of your debt to him whether he wishes to do so or not. A pound note is therefore a short-title deed to a poundsworth of goods, and can be just as effective an instrument of exchange as gold, and much less heavy to carry about. The difficulty with paper money,

<sup>1</sup> This was written in 1941.

<sup>2</sup> There has been nothing deliberate about this. A technical jargon or a shortened form of speech has grown up in this as in other trades which bewilders the outsider and makes simple things sound much more difficult and therefore much more important than they really are.



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is that there is no law to prevent the government which owed over 8,000 million pounds in 1939, from printing over 8,000 million one-pound 'treasury notes' with which to pay off its creditors, 'even though a thousand of them in these circumstances would not buy a cigarette'. Incidentally the German, Austrian and Russian governments, cancelled their debts at the end of the first world war in this way.

The question therefore arises of the point at which a government should stop the issue of paper money. The text-books say that this should be done immediately there is a tendency to a general rise in prices, because the only thing which can cause this is a fall in the worth in exchange of the currency. So that in a paper-money country the government is responsible in theory for withdrawing notes from circulation when all prices show an upward trend, until the original price level is restored. And, when all prices fall simultaneously the government should issue additional notes to restore the balance. In other words, it is the business of an honest government to keep prices steady by adjusting the supply of currency to the demand for goods. Unfortunately no one knows how to do this accurately and the system has to get out of balance before anything can be done. Governments know how to print notes and then use them themselves to pay for services or to buy goods and armaments, but before they can withdraw money from circulation they have to decide whose money is to be withdrawn. Actually, they can only really withdraw money to which they are themselves entitled, and since this consists solely of taxes, it can only be done properly through taxation. That is, by collecting the required number of notes as taxes and then cancelling them. This is psychologically an impossible procedure, *even if the number of notes to be withdrawn could be determined*. The most which can be done is for the Treasury to effect a temporary withdrawal by borrowing money from the Bank and withholding it temporarily from circulation.

### 9. Token money and bank notes

We solve the difficulty of paying out amounts of less than one pound by using coins of silver and bronze, but so that it shall be impossible for anyone to make a profit by melting down these coins



and selling the metal, they are made of such a weight that their worth in exchange as metal is always less than their legal worth as coins. Moreover, in order that this part of the monetary system shall be an honest one, the use of this 'token money' is limited by law for silver to the payment of sums up to two pounds, and for copper to the payment of one shilling. The coinage is thus seen to be simply a means for the dividing up of pound notes. Actually the sum involved is such a relatively small proportion of the total currency, that it is not necessary to consider the present coinage further in this inquiry.

There is also the difficulty of paying large sums. To meet this the Bank of England is allowed to issue promissory notes payable at sight in gold at the Bank, for sums of five pounds, ten pounds, a hundred pounds, and so on. These are handed from one person to another in buying and selling as they are considered to be 'as good as gold'. Certain Scottish and Irish banks have been granted the same privilege on condition that they hold sufficient gold in their strong-rooms to redeem the notes when presented, and of course, that they do not pay their debts in their own notes.

You may now ask what happens when there is no longer any gold available for this purpose, as at present (1941). Do the banks stop issuing these notes? No, they are allowed to continue to issue them provided they hold in place of the gold an equivalent amount in treasury notes. In other words, these notes simply take the place of precisely the same sum in pound notes. In these circumstances we do not need to consider this part of the currency any further.

#### 10. *The cheque system*

Modern banking makes it possible to do an enormous quantity of business without coins or notes or money of any sort. Suppose A and B are both in business. That A sells B five hundred pounds-worth of goods, and at the same time A buys goods from B to the sum of five hundred pounds and one penny. They do business to the amount of one thousand pounds and one penny, yet all the money they need to settle their accounts is the odd penny. If they keep their accounts at the same bank even the penny is not necessary. The banker transfers a penny from A's account to the account of B and the transactions are completed.



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When business is done in this way you do not give your creditor money ; you give him an order on your banker (a cheque) ; but he does not go to your bank and cash the cheque : he gives it to his own banker to collect. Thus every bank has every day to pay money to other banks which hold cheques upon it for collection, and at the same time receive money against cheques it has received for collection from other banks. These cheques taken together may amount to hundreds of thousands of pounds, yet the difference between the ones to be paid and the ones to be collected may be only a few pounds or less.

So the banks began by setting up a clearing house to add up all the cheques and find out what each bank ought to pay or receive on balance. This saved much handling of money, but it occurred to the banks that even these transfers might be saved if they all kept an account at the same bank. So the banks themselves opened accounts at the Bank of England which thus became the central bank for the whole system ; and now their accounts with one another are settled by a couple of entries in the books of the Bank of England. It follows from this that if we all had banking accounts money could be dispensed with altogether except for transactions between strangers whose names and addresses were unknown to each other. For you can give an order and pay by a cheque in a shop only when you can count on finding the shopkeeper in the same place if there is anything wrong with the goods ; and the shopkeeper can count on finding you similarly if there is anything wrong with your cheque, but if you take a bus on the way home, you can hardly expect the conductor to open an account for you ; so you settle with him by handing him his fare in coins. Actual money is thus being replaced more and more by money of account, but this procedure cannot be extended to cover pocket-money.

### II. *Bills of Exchange*

International trade is largely financed by bills of exchange drawn on banks or banking houses, so that very little cash is used in the settlement of international debts. A bill of exchange is an unconditional order in writing addressed by one person to another and signed by the person giving it, which requires the person to whom it is addressed to pay on demand, or at a fixed or determinable



future time, a certain sum in money to a specified person or to the bearer. If the owner of such a bill wishes to obtain cash for it before the due date, he can sell to a banker the right to receive the sum specified on that date. When a banker buys a bill of exchange he makes the purchase at a discount, the discount paying him for his accommodation.

The accepting and discounting of bills of exchange is performed in this country by firms and companies who specialise in these transactions, and by the commercial banks. The functions of an accepting house is to guarantee due payment on the bill and so make it into one which will readily be discounted by the banks or by the discount market. For this guarantee it makes a charge which varies from one to two per cent according to the customer and the character of the risk.<sup>1</sup> The discount market is thus seen to be simply a part of the machinery for keeping spare-money in circulation.

## 12. *The banks and the monetary system of Great Britain*

The operations of all British banks are co-ordinated by the Bank of England. This is the central bank of the system and it has two distinct departments ; one for the issue of currency, and the other for the business of banking.

The Bank of England, before it was nationalized, was a private institution which was not subject to legal control except in the issuing of bank notes and the granting of loans to the state. It was founded in 1669 for the express purpose of raising and lending money to the state and by reason of this service certain exclusive privileges were granted to the Bank by Royal Charter and by various Acts of Parliament. There were statutory provisions relating to the issue of notes, the granting of loans to the state, and the publication of a weekly statement of account. But, apart from these items, the Bank was free to do whatever it liked except ' that in order not oppress His Majesty's subjects, the Bank was debarred for all time

<sup>1</sup> The need for this deferred-payment system arises from the fact that when goods are manufactured a sum usually equivalent to the greater part of the selling price has to be disbursed as wages and salaries and in payments for raw materials before the goods are delivered, and cash is received for them. In international trade the time lost between the manufacture and the delivery or sale of goods may be very considerable, and so manufacturers have very often to keep their plants going by drawing upon the spare money of others through the sale of bills of exchange.



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from using any of its funds in dealing in merchandise or wares of any description'.

Treasury notes are printed for and delivered to the issues department of the Bank of England up to an amount—called the fiduciary issue—which is agreed between the Bank and the Treasury.<sup>1</sup> The use of this currency is, however, subject to the Bank obtaining and holding sufficient securities to cover the amount put into circulation. That is to say, the issues department of the Bank cannot distribute currency except in exchange for its equivalent in securities. These may include silver coin up to £5,500,000, but apart from this sum they are interest bearing securities.<sup>2</sup>

Securities may be described as promises to return equivalent currency to a bank, which are secured to the bank by depositing with it stocks, shares, or other similar readily saleable property or claims to money which the bank can sell to recover the full amount, should the need arise.

The distribution of currency to the public is effected through the banking department. This is a bank of deposit.<sup>3</sup>

The issue of currency notes thus involves the transfer of securities to the issues department from the banking department,

<sup>1</sup> The Currency and Bank Notes Act, 1928, amalgamated all notes issued as one issue under the control of the Bank of England and the fiduciary issue was then fixed at £260,000,000. This Act also gave power to the Treasury on the application of the Bank to assent to an increase or a reduction of the fiduciary issue. A limit was placed upon the period to which an increase could apply and any authority for an increase was directed to be laid before Parliament.

<sup>2</sup> The interest is used to meet the expense of printing, issuing and cancelling notes, and the general expenses of management. A surplus is treated as public revenue by the Treasury.

<sup>3</sup> If you wish to know more about this, before nationalization, its liabilities included the proprietors' capital, the rest (undistributed profits), and the liabilities of the Bank to its clients under the heads of public deposits, British bankers' deposits and other accounts of Dominion and Colonial bankers, and a small amount of seven-day and other bills.

Public deposits included all balances of the British Government held at the head office and branches of the Bank, including the Exchequer Account, the Paymaster-General's Account from which supplies are issued to the spending departments, and many accounts relating to the national debt, the collection of taxation and government funds of different kinds.

Against these deposits or liabilities the Bank held the following assets:

(1) Government securities under which fall only direct obligations of the British Government, including treasury bills acquired on the initiative of the Bank, and any temporary ways and means advances made to the Exchequer.

(2) Other securities made up of:

(a) Discounts and advances which included bills of exchange and treasury bills brought to the Bank for discount, and advances made by the Bank to the bill market, and to private clients.



and it should be clear that this will occur whenever the demand for currency (backed by securities) exceeds the cash deposited with the banks, and that this procedure can be followed until the limit to the fiduciary issue has been reached.

The currency actually drawn by industry is thus governed by the deposits of industrialists and the ability of industry to give approved security for further amounts. The balance of the fiduciary issue (if in use) then represents the sum used by the government, and since direct obligations of the government, including treasury bills and any temporary ways and means advances made to the exchequer, rank as securities for this purpose, the government can decrease the fiduciary issue<sup>1</sup> available for industry or effect an increase in the fiduciary issue at will.

It will be clear upon reflection that it is not necessary for the banking department to transfer securities to the issues department in exchange for currency, so long as it retains any deposits (that is so long as there is any money left in the till). Bankers therefore employ in the granting of loans such an amount of the sums deposited with them as experience has taught them is not likely to be immediately called for by the owners.<sup>2</sup> This procedure increases the nominal amount of bank deposits thus :

Suppose, for example, that there is only one bank, and that a customer pays £1,000 in cash into it, and that only about 10 per cent of this deposit need be reserved to meet his demands for cash. In these circumstances £1,000 will support deposits of this order amounting to £10,000. The bank may therefore grant loans or overdrafts, or purchase securities to the extent of a further £9,000, but *only to its own customers*. If loans are granted up to £9,000

(b) Securities which might include stocks guaranteed by the British Government, Indian, Colonial or foreign securities, miscellaneous securities and Commercial bills purchased by the Bank on its own initiative.

(3) Currency notes issued by the issues department but not in circulation. The notes in circulation included the notes in the tills and reserves of other banks and the notes set aside as cover for the note issues of banks in Scotland and Northern Ireland to the extent to which those issues exceeded the statutory limits.

The position remains fundamentally the same today.

<sup>1</sup> When the issue reaches the fiduciary limit, the acceptance of further securities by the bank becomes impossible until the Treasury sanctions an increase in this limit or repays loans it has had from the banks.

<sup>2</sup> Quite apart from this purely technical aspect of this matter, deposits are reserves of purchasing power, and it is not in the public interest that this money should remain idle.



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to its own customers, credits will be opened up to this amount, and when this is drawn, it will be paid into other accounts. Deposits will thus be *nominally* increased to £10,000 and the bank will hold against its liability to pay out this sum, the original £1,000 in cash, and the obligations of the borrowers to repay loans amounting to £9,000. The same result is obtained if a bank purchases investments instead of granting loans. There are however many banks, and a credit granted by one may reach the accounts of another, but the net result is the same when all the banks operate to maintain this balance through the medium of a central bank, in which they keep a sufficient proportion of their cash reserves for this to be done (usually about 5 per cent). The central bank in this country is the Bank of England.<sup>1</sup>

The bank deposit system is therefore simply a means by which the maximum possible amount of the available money is kept in use (up to 90 per cent, or with 10 per cent of it left in the till). Hence, if the cash reserves are kept steady at 10 per cent of the total bank deposits, the amount of money in actual use cannot be more than 90 per cent of the total sum of the 'real' money deposited with the banks.

### 13. *The money markets*

Banks thus hold deposits of cash from the public which they use as the basis for the granting of loans and for the purchase of interest-bearing securities.<sup>2</sup> They recoup themselves for the services they render to the community through loan charges, charges for specific services, and the interest obtained from the holding of securities.

The use of the spare-money deposited with the banks obviously requires markets through the aid of which these funds can be used. These have developed with the banking system, and consist of:

- (1) A market in which funds are lent only for very short periods. This is the call-loan market, and in London

<sup>1</sup> You must not jump to the conclusion that this is a system of creating 'new money' which has been introduced by the banks for the purpose of charging interest upon loans, as so many so-called 'experts' and social reformers do, or you will find it impossible to think clearly upon many monetary issues.

<sup>2</sup> It should be clear that the sums paid for these are expended in industrial enterprises of one kind or another, and that these are simply legal documents to a share in the profits made.



this is associated primarily with bills of exchange. That is, with the discount market.

- (2) A market in which the supply of and demand for short-period loans to industry (overdrafts) is balanced. The conduct of this market is a concern of the commercial banks.
- (3) A market for the adjustment of the supply and demand for new long-period capital. This is the capital market<sup>1</sup> in the ordinary sense of the term.
- (4) Subsidiary to (3) there is a market for the sale and transfer of ownership in existing securities. This is the Stock Exchange.

There are also specialised organisations concerned with linking up the flow of savings with the demand for savings for special purposes. Insurance companies, savings banks, agricultural mortgage banks, and other similar institutions fall into this class. All these subsidiaries of the banking system are thus concerned with making use of spare money, or if you like, with keeping the maximum possible amount of the money available at work.

Many social reformers hold the view that there is no justification for any trading in money. It should be clear, however, that if this trading results in a greater proportion of the available money being exchanged for commodities it is justified, but only if it be honest trading; that is, conducted in such a way that no advantage is taken of the 'plight' of the users, only reasonable charges being made for the service rendered.<sup>2</sup>

#### 14. *The need for a scientific standard for currency*

With the present system approximately 90 per cent of the money deposited with the banks<sup>3</sup> is kept continuously in use

<sup>1</sup> Capital in this sense consists of spare money which is spent upon the development of industrial enterprises.

<sup>2</sup> When you can 'secure' a loan at a bank you do not need to approach a moneylender who, because of the lack of securities, charges such a 'rate of interest' as he can impose on you because of your need.

<sup>3</sup> You may wonder why the limit is, in general, limited to 90 per cent. There is no fundamental reason why this figure should be observed, and it should be obvious that there would be less unemployment if all the money was kept in use all the time. Actually, banking practice was moving over to this, and at the time the



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through loans of one kind and another to industry, the money markets and the government. The number and variety of these transactions is very great, but this does not affect the utterly simple procedure upon which they are based. The limit to the money in circulation is fixed by the sums deposited with the banks, plus the additional sums which may be obtained from the government via the issues department of the Bank of England in exchange for suitable securities, up to an amount agreed between the Bank and the Treasury, and called the fiduciary issue.

If money is the means by which we divide up the claims to the possession of goods as they are produced, then the fiduciary issue operating through the banking system should effect a balancing of the currency in use against the goods to be distributed and divided up. How is this done? It is not done! The reason for this is that no one knows how to do it with any degree of accuracy, and as the late Lord Stamp put it, the most that can be hoped for, even on a gold basis, is a near approximation brought about 'by balancing the elements of fluctuation'. In other words, an entirely satisfactory relationship has not yet been established between the securities available and acceptable by the banks for the issue of new currency, and the goods awaiting distribution and exchange.

There may be therefore a vast demand for goods which cannot be satisfied, simply because there is not sufficient currency available to effect the distribution of them. This prevents their manufacture, and so creates unemployment. This is an intolerable state of affairs in a civilised state, and one which can of itself for ever prevent the achievement of the security for everyone which we are seeking. In other words, there is no standard for currency, and such a standard when found should make possible an unrestricted issue of currency equivalent to all the goods which can be produced and distributed at the prices actually paid for them.

It is instructive at this point to note that the Act in which our system of weights and measures is defined, was not placed upon the Statute Book until 1824. The preamble of this Act recites

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evidence was taken upon which the Macmillan Report (1930) was based, the limit was about 95 per cent, but owing largely to the fiction that banks create credit (or reduce this margin) *solely* to increase their profits at the expense of the community, the outcry raised by this disclosure appears to have retarded progress along this line.



that there were then in use in various places throughout the United Kingdom, different weights and measures, that such diversity was the cause of *great confusion and manifest fraud*, and that for the remedy of these evils, in the future, certain standards should be established throughout the realm. Since 1824 a succession of other standards has been devised—all those relating to electrical phenomena, for example—but the discovery of a standard for currency has eluded us, and for lack of such a standard there has been and still is *great confusion and manifest fraud* in monetary affairs, not only in the United Kingdom but throughout the world. The next step is therefore to inquire whether or not a similar standard cannot be devised for currency.





## CHAPTER IV

# A STANDARD FOR CURRENCY

### 1. *The definition of an honest currency*

THE moral limits within which a political economy must operate require that the currency of a country shall be an honest one, for if it be dishonest, it becomes at once a vehicle for the inculcation of habits of deceit and fraud throughout the whole body of society.

The next step therefore, is to define an honest currency. This is :

- (1) One in which all documentary claims to goods (pound notes) are cancelled when they are satisfied by new goods, as perfectly as they are by the cheque system.
- (2) One in which the money in circulation at all times balances goods as they are produced at the prices paid for them.
- (3) One in which it is impossible for the government, the banks, or any other member or group of members of a community, to prevent, or in any way interfere with, the scientific operation and maintenance of items (1) and (2).

### 2. *The circulation of paper money*

How is such a currency to be obtained ? The present position is that it has been found impossible to maintain a balance between goods available for sale and the money made available for their distribution and exchange, because there is no known means of measuring accurately what quantity of goods is available for sale at any moment, or of ascertaining the total sum which needs to be issued to effect their exchange. Day by day new goods are placed upon the market, and old goods also, so that even if we knew the quantity of new goods entering the markets each day and the prices to be paid for them, there is still the question of the currency required (if any) for the exchange of old goods, and of new goods for old. This prompts the question : What goods must currency be issued against ? Must the currency balance all the goods available for sale, both old and new, or new goods only ?



The first principles involved are clearly :

- (1) That there can be no goods unless someone labours to make them.
- (2) That the primary aim of the currency is to share out the goods made among those who labour to produce them.

From which we see that old goods are commodities which have been already shared out, and we know that if the sharing out has been effected by an honest currency, the documentary claims to them will have been cancelled. A currency must be therefore maintained only against new goods as they are produced, and not on any account whatever against old goods (including houses, land or anything else you can think of).<sup>1</sup>

How then are old goods to be exchanged ?

This question can best be answered by an example. A person engaged upon the production of new commodities *receives currency in proportion to his labour* and exchanges his claim to new goods for old goods ; that is, he passes on a documentary claim to new goods to be exercised by another member of the community.

It clearly does not matter who eventually exercises this claim ; that is, how many times it changes hands and effects the exchange of old goods ; provided the document is cancelled when it is finally exchanged for new.

We thus see that the distribution of new goods by currency involves the principle of cancellation, and that the exchange of old goods does not involve the issue of any currency at all. In other words, *we have to distinguish between a primary circulation of currency which distributes the claims to new goods among those who produce them, and a secondary circulation which distributes these claims, and therefore the new goods they represent, among the whole community in exchange for goods which have been already distributed, or for services.*<sup>2</sup>

<sup>1</sup> This is implicit in the definition of money given in Chapter III, § 4. Note the phrase in italics.

<sup>2</sup> Thus all fees for professional services, such as those of architects, which are included in the final price obtained by the builder for a house, are costs incurred in the production of commodities. On the other hand, solicitors' fees for services to private individuals, and for conveyances (except the actual conveyance of a new house, which should be included in the selling price and disbursed by the builder) are transactions that fall in the secondary circulation of currency. Also, those who produce commodities against which the currency is balanced do not neces-



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In short, Eric Gill was right when he wrote 'that if we agree that a loaf of bread is worth fourpence, there ought to be as many fourpences in the country as there are loaves of bread. And so with everything else' *which is newly made and ready for distribution*.<sup>1</sup> The belief so clearly stated by Bernard Shaw that because money changes hands many times, the same number of fourpences as loaves is *not* required, is not therefore correct.

The point that a goods and currency balance is impossible because money changes hands an unknown number of times thus rests solely upon the unscientific procedure which has hitherto been followed in the consideration of this matter.

There is also the distribution of claims to goods as they are produced among the suppliers of the raw materials, the manufacturers of the goods, the transporters, wholesalers and retailers. That is to say, the sum received for the final product has to be distributed down a line of wholesalers, transporters, manufacturers and suppliers of the raw materials.<sup>2</sup> Put in another way, there is a traffic of materials forward to the final sale and a traffic of claims to finished goods (currency) back to the producers of the raw materials.

There are therefore three circulations :

- (1) A primary circulation of true currency which distributes new goods as they are produced to those with a claim to them.
- (2) A secondary circulation of true currency which distributes claims to new goods over the whole community by the

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sarily expend the whole of it upon equivalent new commodities, or exchange the balance of their claims to new goods for second-hand goods. They pay rents, professional fees; visit theatres, cinemas, swimming baths, and so on. Rents, professional fees, bathing charges and the like, therefore effect a secondary distribution of the currency issued by the banks. That is to say all *services which do not contribute directly to the production of commodities, are a part of the secondary circulation of currency*.

It will be observed that the work of inventors and authors is productive, and that their work is remunerated through manufacturers and publishers. Publishers are therefore to be regarded as manufacturers of books.

<sup>1</sup> I have added the phrase in italics to clarify the statement.

<sup>2</sup> If I sell a pair of silk stockings for 10s., I have to pay the person who sold them to me, say, 7s. 6d., retaining 2s. 6d. of the purchase price for my labour; and he has to pay the manufacturer, say, 5s. retaining 2s. 6d. for his labour. The manufacturer in turn has to pass on part of the 5s. to the makers of the silk, and so on, until the claim to one pair of silk stockings or their equivalent in other goods has been divided up among those with a claim to a share in them.



exchange of claims to new goods (currency) for old goods or services.

- (3) A circulation which satisfies the claims to new goods (currency) arising from the production of raw materials, partly finished goods, and finished goods, and also from merchanting and retailing them. This distribution of currency is governed by agreement among producers and distributors of goods within the limit imposed by the sum obtained for them.

It should be noted that these circulations already exist. It is only that as far as I know, no attempt has been previously made to distinguish or separate them in this way.

### *3. The problem of cancellation*

Consider now a factory which produces everything needed by those who labour in it. Such a factory could quite simply issue documentary claims to the goods produced to its employees, and it could also balance these claims against the actual commodities to be distributed, and then finally cancel them as the goods were handed over in exchange for them.<sup>1</sup> The problem is to effect the same result for innumerable factories and workshops, none of which are self-supporting, but all of which put their goods into a common pool from which every need of a community is supplied.

The first point to observe is that if this were done every factory and workshop would have to distribute currency exactly equivalent to the goods it produced at the prices received for them from the common pool or market. Isn't this precisely what every business in the country is doing, more or less, today?

The second point to note is that *every business which pays all the money it receives for the goods it produces or sells into a bank, and which also over the accounting period withdraws this sum and distributes it to all those with a claim to these earnings (i.e. to the goods produced or their equivalent in other goods), is not only distributing currency exactly equivalent to the goods it produces at the prices paid for them, but it is also effecting the cancellation of equivalent documentary claims to them.*

<sup>1</sup> This in a more general way is precisely how local currencies were distributed at one time.



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The following example will make this clear.

I am in business. When I started up I put into a bank sufficient spare money to enable me to pay skilled craftsmen to manufacture certain goods for me and to pay myself for the part I played in the process. (I had to live day by day as they had.) I then sold these goods for what they cost me to produce (my own labour included) and paid this sum into the bank. What did I do? Ignoring for the present the source of the spare money paid into the bank in the first instance, I actually distributed currency equivalent to the goods produced at the prices paid for them. My workmen and myself then put the sum into circulation by purchasing an equivalent worth of other goods, and this sum was paid me for the goods we produced and then 'paid into the bank', thus cancelling out the amount originally withdrawn from the account.

It is noteworthy that the cancellation of legal claims to goods in this way does not involve anyone in a loss, and that all public companies are already following this procedure. And, that it follows from this that if all producers and distributors of commodities were to adopt this system of conduct, the currency would be always exactly equivalent to the goods produced at the prices paid for them over each accounting period, *provided the sums saved or added to reserves was balanced by withdrawals from savings or from reserves in the same period.*<sup>1</sup>

#### 4. *The problem of balancing the currency drawn against goods as they are produced*

We can now reconsider further the fact so emphatically stated by Bernard Shaw that no government in the world knows how to maintain the currency at all times exactly equivalent to goods awaiting distribution and exchange.

The point has been made that if every producer and distributor of new goods had an account with a bank and all the currency they received was paid into it, the currency issued against new goods would be returned to the source (and in effect cancelled), as the claims to new goods were met. Is this all that needs to be done in order to create an honest currency? Not quite, as there is the transfer of claims to currency from the retailer, to the whole-

<sup>1</sup> We shall clear up this point in detail later.



saler, to the manufacturer, and to the producer of the raw materials, which confuses the issue. At each of these steps goods are transferred, and currency is drawn against the costs incurred. We therefore require to effect these drawings in such a manner that the true currency issues are known. This requirement can be met by the use of a *not-negotiable goods cheque*. That is by paying for all raw materials, partly finished goods, and transfers of finished goods from manufacturer to wholesaler and from wholesaler to retailer by 'not-negotiable' goods cheques, no currency whatever passing. If this were done all other withdrawals from the bank by the individuals and firms concerned would be true currency issues. This means in practice that there should be two forms of cheques. Not-negotiable goods cheques issued only to individuals and firms falling in the above classification, and *currency demand cheques* used for withdrawals for wages, salaries, rent, taxes, etc., and dividends. Banks would then need to use two columns in their accounts where they now use one. The first to record payments by goods cheques, and the second to record the drawings on currency demand cheques. We shall see later that a distinct column should also be used for dividends and that payment of them should be by dividend warrants<sup>1</sup> as with public companies.

The same result could be achieved more subtly by the banks themselves if all cheques were made not-negotiable, as the person or firm to whom a cheque is made payable on a particular branch is stated upon the cheque itself and is known to them. And as the issue is simply a matter of into which column the amount is entered by the branch on which it is drawn, if the bank receiving the cheque, knowing its own customers, records the appropriate column number upon it for the guidance of the bank on which it is drawn, precisely the same result is obtained.

5. *The system of conduct which must be adopted if the currency in circulation is at all times to balance new goods as they are produced at the prices paid for them*

Any business house which pays all the currency it receives into a banking account, and which uses the cheque system to pay for goods, is doing almost everything required by this method for

<sup>1</sup> Here is another example of the amazing way in which industry has been feeling its way to fundamentally right practice.



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the scientific control of currency. What is wanted is that every business should operate upon this basis.

This requires that all businesses be registered<sup>1</sup> and have issued to them a licence to trade on undertaking :

- (a) To open a banking account for the business, and to pay into it all cash and cheques received from every source whatsoever.
- (b) To pay for all raw materials and partly finished goods, for use in manufactures, or finished goods for distribution or resale by a not-negotiable cheque, and never on any account whatsoever by cash.
- (c) To refuse to sell raw materials or partly finished goods for use in manufactures, or finished goods for distribution or resale for cash.
- (d) All drawings for wages, and salaries, and payments for rent, taxes, and all other items except those specified to be paid by goods cheque, to be effected by a currency demand cheque.
- (e) To pay dividends (if any) by a third form of cheque or dividend warrant.

This is in agreement with the right that 'everyone should have to buy or sell without any discriminatory restrictions anything which may be lawfully bought or sold, in such quantities and *with such reservations as are compatible with the common welfare*'.

### 6. *The problem presented by the one-man business*

The extension of the present commercial practice of registered companies to be compulsory for the butcher, the baker, and the candlestick maker, appears at first sight to make the system depend for its success upon the personal honesty of these traders. The granting of such a licence should be subject to the recipient solemnly undertaking to observe the conditions under which it was granted, and failure to keep this civic responsibility should be then followed by the *permanent* withdrawal of the licence. There should be no difficulty in enforcing the requirements (b) and (c) through a bank-

<sup>1</sup> Registration should be local, and the charges should be just sufficient to pay the cost of issuing the licences. Moreover, the licence should be one that can be exhibited in a suitable public place in each business concerned.



ing account, but the payment of all receipts into bank for 'small' one-man businesses and drawing sums out again for personal requirements may be extremely inconvenient. In practice, therefore, it may be necessary to allow businesses which cannot be reasonably expected to adhere to conditions (a), (b), (c) and (d) to have a licence to trade subject to opening a banking account (a), and strict adherence to items (b) and (c) only.

The effect of this procedure would be to transfer a proportion of the work to be done by true currency to the secondary circulation, for on consideration it will be seen that the final stage in the marketing of goods can be regarded as belonging to both the primary and secondary circulations. It belongs to the primary circulation in so far as goods must be paid for by goods cheques drawn against currency deposits, but the difference between these sums and the total amount received for goods can be taken as belonging to the secondary circulation without adversely affecting the conduct of the system. For example, a shopkeeper who receives five pounds for an article which cost him four pounds, actually receives for himself one pound of the claims to goods of the purchaser for his services. Put in another way, the object is to maintain the precise equivalent in currency of the goods available for exchange. The actual amount depends upon the prices paid for the goods, and these are received by the retailers. The retailers pay all 'into bank', draw currency for themselves and pass on claims to currency by goods cheques to balance the amounts received for the goods. If retailers only pay 'into bank' sufficient to cover the purchase of goods and spend the balance, the effect on the system as a whole will be precisely the same, but the actual total currency will not be directly known. The sum involved can be obtained indirectly from the income tax returns as a check on the estimated sums, provided the income tax procedure continues as at present.

7. *The banking accounts of private individuals and of those who do not contribute to the production and distribution of commodities against which currency is drawn*

Members of a community who produce or distribute commodities against which currency is drawn do not necessarily expend the whole of it upon new goods; they pay rents, rates, taxes,



professional fees, visit theatres, cinemas, and swimming baths and the like. All these payments effect a secondary distribution of the claims to new goods, so that the banking accounts of these businesses will be characterised by the fact that they are purely currency accounts relating to the secondary circulation. Such accounts, like the private accounts of individuals, will not therefore be used in the balancing of currency against new goods. Money paid into these accounts will be merely a deposit. No goods cheques will be therefore issued against them,<sup>1</sup> and only one column need be used to record withdrawals from the account.<sup>2</sup> These are true 'deposit' accounts, and they have nothing whatever to do with the issue of new currency.

We thus have to distinguish between currency deposited with and then paid out by the banks, and the issue and circulation of new currency against goods as they are produced and made available for sale. Incidentally the licence to trade should apply to all businesses alike, whether professional or otherwise, as it is just as important to know how the national income is disbursed, as it is to know the amount of true currency.

### *8. A scientific standard for currency*

Subject to a satisfactory solution being found to the savings and reserves element referred to previously, we have devised a procedure in which all documentary claims to goods (pound notes) are in effect cancelled as they are satisfied by new goods, as perfectly as claims are cancelled in the cheque system. We have also laid bare the practical steps which must be taken if the money in circulation is at all times to be maintained equivalent to the commodities produced at the prices paid for them. We have not, however, defined a standard for currency, although we have seen how a currency can be created which is related directly to the total quantity of goods to be distributed at the prices actually paid for them. The question which now arises is how the prices of commodities are fixed?

<sup>1</sup> If simply 'not-negotiable cheques' are used, and not a special goods cheque, all cheques drawn on deposit accounts would be classified by the banks just as easily as cheques drawn on currency accounts.

<sup>2</sup> We shall see later that further columns will be required for *payments into* these accounts in order to provide certain essential statistics.



How then are the prices of commodities arrived at? They are determined primarily by the cost of producing them. This cost includes wages, salaries, rents, rates, taxes, raw materials, transportation, and directors fees, etc. To this is added a trading margin determined by market conditions to cover unpredictable items of cost (including breakages and waste) and out of which dividends (if any) are finally paid. It is thus impossible in practice to ascertain the precise cost of commodities. In factories, estimates or approximations are made based upon the man-hours of labour employed in producing them for guidance in manufacture and in price fixing, and week by week currency is drawn against the expenditure of labour computed directly or indirectly on the hours of labour employed. This, however, is not the total sum drawn against the goods produced by a given factory, as this is determined by the actual currency received for the commodities after they have been produced and sold. In other words, the total currency which can be drawn by a factory against the goods it produces is the sum it receives for them.

We can reduce this sum to a rational basis by dividing it by the total number of hours worked by everyone in a factory (including the management). This gives us a factory man-hour or currency rate which relates the labour expended, the work done, or the goods produced, to the currency which has been or is being put into circulation by that factory, and which, over each accounting period, is exactly equivalent to the goods produced at the prices actually received for them. A factory does not however distribute the total sum received for the goods it produces to the workers in it; a proportion has to be passed on to the suppliers of raw materials, etc., by cheque. The factory man-hour rate of any factory is therefore

The total sum received for the commodities produced	<i>less</i>	the cost of raw materials, etc. (pay- ments by cheques)
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The total number of man-hours expended upon their production, including  
the management

This factory man-hour or currency rate will obviously vary from one factory to another, so that we now require a standard for currency to which all these currency rates can be referred.

The first point here is that it does not matter one iota what we call the document which will give a legal claim to the produce of



one standard factory man-hour of labour.<sup>1</sup> The second point is that no advantage is to be gained by setting up a new currency if the existing one will serve. Suppose, then, that we adopt 10 pence per factory man-hour as the standard. We can now express every actual factory man-hour rate in terms of this. For example, a 15-penny factory man-hour rate is 1.5 times the standard. This standard gives  $10 \times 24 = 240d.$  or one pound per factory man-day. Unit working time can then conveniently be 6 minutes and the unit rate for currency per unit factory working time, one penny. This unit may be too small in practice, in which case a multiple of this would be used and preferably one which permits of the simple use of decimals. The true basis for currency is thus seen to be labour.<sup>2</sup>

### 9. *Labour as the basis for currency*

It is helpful in this matter to reflect upon the fact that in the ultimate analysis all costs incurred in industry are labour costs. The cost of a raw material is that of the labour expended in making it available for use. The cost of coal is an example. The cost of grain is that of the labour expended in ploughing, sowing and reaping. The costs of manufactures are again labour costs, for all the charges classified under the term overheads or oncosts, including capital charges, are claims for the produce of labour expressed as rent, rates, taxes, capital returns, and so on. This follows from the fact that money is not wealth but a documentary claim to the produce of labour, being the sign of the relative quantities of produce, and *in retrospect* of the labour producing it, to

<sup>1</sup> For example, if the total output of commodities over a given period has involved an expenditure of labour equivalent to one million men working for one hour, i.e. one million man-hours, the equitable distribution of these products can be effected at once by the issue of one million man-hour currency notes, and their distribution on the basis of one man-hour currency note for each man for each hour he has laboured, provided the prices of the commodities are honestly fixed in terms which correspond to the man-hours required to produce them. There is, however, no point in changing the designation and divisions of the currency in use if this can be avoided.

<sup>2</sup> This is not a new idea. It is, for example, stated clearly as a *theoretical principle* by Adam Smith in his *Enquiry into the Nature and Causes of the Wealth of Nations*, and Karl Marx developed a labour *theory* of value at length. What is new here is the observation that a practical solution is now possible to the problem of basing currency upon labour which will obviously work, and for which we have really to thank those responsible for the development of engineering cost accounting.



which, at a given time, persons or societies are entitled. A fact which is well expressed in the statements which have recently been made of the number of man-hours required for the production of a warplane today, compared with the number of man-hours required to produce a warplane in 1918. To have stated that a modern warplane costs 20,000 pounds, compared with 5,000 pounds in 1918, would have conveyed the idea that increasing production was a matter of providing money, whereas the truth of the matter is that it is a question of providing sufficient labour of the right type. All the money in the world cannot produce a single warplane, or anything else for that matter, its use can only direct labour to this end, and then only if there is appropriate labour available. All of which illustrates the fact that in drawing currency against goods we are really issuing currency against labour and nothing more.

10. *Capital remuneration in terms of the currency standard*

Capital in the form of machinery increases the output of labour per factory man-hour, and is therefore a contributory factor in the total costs per factory man-hour. Currency must consequently be drawn against this and other similar indirect labour costs. Hence, in theory, rents, capital charges and the like should be reduced to a man-hour basis. For example, a one per cent return per annum on one pound of capital (2.4d.) in a factory working a 40-hour week, and a 50-week year, would be

$$\frac{2.4/40 \times 50 = 0.0012d. \text{ per hour the factory works, or } 0.0012d.}{\text{the total number of employees of all classes}} \text{ per factory man-hour.}$$

This is a purely theoretical refinement, however, as it is satisfactory for most purposes to express these charges directly in terms of currency. The exceptions are in comparisons of costs, and possibly in the statistical analysis of the national income.

11. *The 'yardstick' for currency already in use in industry*

If you have practical experience in industry you will know that the costing of industrial operations and price fixing is based upon fixed labour standards. This is the only way to secure firm costs for the commodities produced. On the other hand, the currency,



## A STANDARD FOR CURRENCY

the function of which is to effect the division and distribution of goods as they are produced, is not at present related directly to these labour standards or to the goods themselves. It is issued and controlled upon the assumption that the prices of commodities are free to rise and fall automatically with variations in the quantity of gold or securities available as 'backing', for currency. This fact was commented upon by the late Lord Stamp in 1932 thus: 'If money wage payments do not readily move up and down, and the wage structure is rigid, as in this country, then the (gold) standard is jammed'.<sup>1</sup> In other words, we have been actually operating two standards: one for industry and price fixing—a fixed labour standard; and one for currency and money fixing—a gold-cum-security standard which in theory is fixed by fluctuations in the quantity of gold available as backing for currency, and in commodity prices.

That there is no natural relationship between these two standards is obvious, and if further proof is needed of the fact that the productivity of industry is not naturally related to the quantity of gold available for currency, it is to be found in the fact that this country now has very little (if any) gold, and the productivity of industry is continuing unaffected by this 'monetary catastrophe'. The fact of the matter is that *we are now operating upon an undefined labour standard without the scientific control which is necessary to secure an honest currency.*

### 12. *The currency standard and a basic standard for wages rates*

If six minutes is unit time for production in all branches of industry, it is also unit working time for every individual engaged in them. We can therefore relate wages, salaries and service charges of all kinds to this factor, and take one penny per unit of working time or 10 pence per man-hour or 240 pence per man-day as the standard in terms of which all wages and other similar rates are expressed. Here we must remember that wages are legally payments for time and not for productivity, and that the ability to produce more or less in a given time is taken into account in fixing the man-hour rates in different industries, and indeed in different factories, in terms of the standard.

<sup>1</sup> *The Financial Aftermath of War*, by Josiah Stamp.



13. *Summary*

If the purpose of currency is to share out goods as they are made among those with a claim to them (that is, to effect the transfer of new goods to the pile of existing property or to those who will consume them), then money is a documentary claim to goods and nothing more.

If money is simply a documentary claim to new goods, then the money issued to effect the sharing out of them must be in effect cancelled when the claims it represents are met by (or exchanged for) new goods; so that goods which are transferred to the pile of existing goods of varying durability in the hands of the public will no longer have any money representing them after they have once been transferred. The durability of these goods is therefore of no consequence as far as the currency is concerned. If some goods are taken from this heap and exchanged for currency (claims to new goods) it is merely that claims to new goods are changing hands. The balance of the system is unaffected by these transactions. This being so, it follows that the circulation of money effects two things. It shares out new goods as they are produced to those who produce them, and it enables old goods and services (not directly productive of goods) to be exchanged for claims to new goods. Hence, in order accurately to control currency it is only necessary to take account of money drawn against the production and distribution of new goods, and in effect to cancel these claims when they have been met by new goods.

If every contributor to the production and distribution of new goods operated through a banking account precisely as registered companies do today, the currency drawn by them from the banks would be equivalent in amount to the commodities made and distributed. That is, the currency in circulation would be automatically and accurately controlled by the quantity of goods produced, such that over each accounting period it would exactly balance the goods produced at the actual prices paid for them.

There would be obviously a fluctuation over the accounting period due to sums received but not disbursed, because rent, rates, dividends, reserves and the like are not distributed week by week. In other words, an accurate balance between goods and currency



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can only be maintained from day to day, if all the money is kept in circulation from day to day. This is a practical point which we shall consider in detail later in this inquiry ; meanwhile, we will assume that the effect of these fluctuations can be eliminated. So that, subject to this qualification being made good, we have devised a system for the control of documentary claims to goods (money) which will maintain a currency which at all times balances the goods produced *at the prices actually paid for them*.<sup>1</sup> And such a currency will be at all times backed 100 per cent by goods which are in demand. It follows from this that the fundamental basis for such a currency is actually labour, and in order that it can be discussed rationally, a standard of 10*d.* per factory man-hour, or 240*d.* per factory man-day (or a multiple of this) is suggested.

Each year every account is balanced by the producer or distributor concerned by the payment of dividends, or withdrawals, or transfers to reserves, and since this applies to all businesses it follows that goods must exist equivalent to these balances at the time they are paid out. With bankruptcies this balance is effected in banking accounts other than those of the bankrupts. Waste and unsaleable goods are a direct loss to those who produce them or purchase them for resale and these items are allowed for in these balances.

The rationalisation of this procedure as a system of conduct involves :

- (1) The separation in banking of the three distinct phases which occur in the circulation of currency.
- (2) That all businesses be registered and have issued to them a licence to trade on undertaking :
  - (a) To open a banking account.
  - (b) To pay for all raw materials, partly finished goods for use in manufacture, or finished goods for distribution of resale, by cheque.
  - (c) To pay into a banking account all sums received up to a

<sup>1</sup> The fact that the man next door grows a cabbage and I buy it from him with cash does not invalidate the principle. Immediately he purchases new goods for currency his currency proceeds to a bank for cancellation. When I pay him cash, I am passing on some of my claims to new goods for him to exercise, as it were, on my behalf. The system would thus tend to ignore the trading of allotment holders and the like, treating the transactions to which these activities give rise as part of the secondary circulation.



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balance of (b) in the case of small one-man businesses, and the total sum received in the case of other businesses.

In this matter of licence to trade 'Everyone must have the right to buy or sell without any discriminatory restrictions anything which may be lawfully bought or sold, in such quantities and with such reservations as are compatible with the common welfare.' The only reservation is that goods bought for resale must be paid for by a not-negotiable cheque.



## CHAPTER V

### ON CAPITAL

#### 1. *The right of choice of many things in exchange for one*

NOW that we have built up a system in which the currency or money in circulation would be always equivalent to the new goods awaiting distribution and exchange, we can proceed to answer the questions: What is capital? and What does capital do in an industrial civilisation?

The starting-point is the fact that the currency distributed by a factory, which is equivalent in amount over the accounting period to the commodities produced by that factory in that period, is really a documentary claim to these goods and to no others. But, by virtue of the social right to exchange such claims for *their equivalent in other goods*, money becomes also the means by which we exercise a right of choice of many things in exchange for one. The granting of this right of choice will clearly have no effect upon the political economy of a state so long as equivalent goods are chosen *at once*, that is before they rot and become useless, for it should be clear, that if claims to goods are not exercised, then the goods which they represent may become worthless.

What then happens to the money which was issued to effect the distribution of the goods which have not been claimed and which have been allowed to rot? It has been put into circulation by the producers of the goods and then taken out again by private individuals, who have thus exercised a right to make no choice at all.

#### 2. *The right to make no choice at all*

If then the right of choice be extended to include the right to make no choice at all, but to 'save' the money, we have to face the fact that for every pound saved an equivalent quantity of goods must be left to rot, or alternatively the price-levels for commodities must fall to the point where the currency issued, *less* the savings, exactly balances the goods to be distributed and exchanged. But



when sales fall off or price levels fall there is less money available to manufacturers and distributors, and they have to modify their output accordingly. A reduction in output means unemployment, and this vicious circle will continue until savings spent balance new savings, and when this occurs the number of unemployed will remain steady.<sup>1</sup>

This will be true in *any social order*, if in any period the savings drawn and spent do not balance the savings deposited. So that denying yourself things which you could do with in order to save money, is not necessarily a social virtue. It may be a social evil. It is only a virtue when you deny yourself those things which you would do ill with—either to yourself or to others—for if everyone denied themselves these things, there would be no demand for them, and industry would quickly learn to concentrate upon the production of things which make for wealth and not for illth.

If then everyone were to decide to save the money as it was drawn against goods, the goods would not be distributed. They would either have to be put into stock or allowed to rot, or industry would have to shut down and allow its labourers to rot, until a saner policy appertained throughout the whole community. Moreover, when goods decay, the documentary claims to them, i.e. the money issued for their distribution and exchange should also decay and be cancelled.

### 3. *The social problem presented by savings*

It is thus clear that 'saving' is a social privilege which can be permitted only if a balance is maintained in any period between savings deposited and savings expended. Put in another way, idle money means idle men, and no state can afford to have either. The next question which therefore arises is how to make this social privilege possible without adversely affecting the community as a whole.

Bernard Shaw has illustrated this point substantially as follows : Some people imagine that because they can save money the wealth

<sup>1</sup> Please do not complicate the issue by thinking about 'export' considerations also at this stage. We will come to these in due course, and until then our attention will be limited to 'home trade'.



of the world can be stored up. Stuff and nonsense . . . What is called savings is only making bargains for the future. If I bake one hundred and one loaves of bread, I can eat no more than the odd one ; and I cannot save the rest, because they will be uneatable in a week. All that I can do is to bargain with persons who will take the hundred loaves off my hands and eat them at once, on the understanding that they will give me 100 loaves back at a time convenient to me in the future. This is not saving up the loaves. It is only a bargain between a person who wishes to provide for the future and others who wish to spend heavily in the present. Consequently, I cannot truly save until I can find somebody else who wants to spend. The use of money obscures this fact.

#### 4. *Stanley Jevons' definition of capital*

Bernard Shaw has also written : 'spare-money is called capital ;<sup>1</sup> its owner is called a capitalist ; and the way in which spare money is used in our present national economy is called capitalism. Capitalism is a disease due to shortsightedness and bad morals . . . once you understand it you will see that it is neither eternal nor even very old established, neither incurable nor even very hard to cure when you have diagnosed it scientifically. "It is out of this innocent-looking beginning (*spare-money*) that our huge burden of poverty and misery and drink and crime and vice and premature death has grown. When we have examined the possibilities of this apparently simple matter of spare-money, *alias* capital, you will find that spare-money is the root of all evil (*in the political economy of a state*), though it ought to be, and can be made the means of its betterment.'"

We are here diagnosing it on a moral basis ; with all the foresight and scientific method of which we are capable. So far we have discovered that 'saving money' is a social privilege, which can be only justified morally, when its restraint of industry, i.e. of the right to work of other persons, is counteracted by a wise and realistic public economy.

<sup>1</sup> This is a precise definition of what capital has come to mean to the great majority of people. The interjections in brackets are mine. Bernard Shaw in the appendix to his *Intelligent Woman's Guide* attributes this observation to Stanley Jevons.



5. *What is spare-money?*

By this definition, spare-money or capital is money you save or have left over when you have bought everything you need to keep you becomingly in your station of life. In exact terms it is a claim to goods indefinitely deferred. If you can live on ten pounds a week in the way you are accustomed and content to live, and your income is fifteen pounds a week, you have five pounds spare-money at the end of the week. The term spare-money is however terribly misleading. It is not spare-money at all, but precisely the opposite. It is money which was created to effect the distribution and exchange of goods which were produced *before* the money was (in effect) issued.<sup>1</sup> It may be spare to you, but if the state allows it to be spare-to-it, so much unemployment, misery and death will inevitably result. But before proceeding to examine this point, it will be an advantage if we can define the difference between spare-money and property.

6. *A definition of spare-money*

Spare-money is a deferred claim to goods, and whether or not these claims can be met upon demand depends upon the length of time commodities can be stored without loss, or upon whether some other persons will or will not defer their claims to equivalent actual goods which have just been produced when the demand is eventually made. For example, if there is one million poundsworth of spare-money in a country, and the country produces only one million poundsworth of goods each week, and one million pounds of new currency is drawn by the producers and distributors in order to distribute them, an additional demand for one million poundsworth of newly produced commodities to discharge 'deferred claims' will simply result in there being two million poundsworth of currency in competition for these goods. That is, each pound note of new currency or spare-money will purchase only ten

<sup>1</sup> You must not fall into the error of thinking that this is true only when money is issued on a labour as distinct from a gold standard. Our present lack-of-system simply obscures this fundamental fact. Nor must you be misled by the current theory that it is possible to 'invest' all spare-money effectively in industry. This can clearly occur only if the sum of spare-money available is exactly equivalent to the need for 'capital'. The practical issue here is that the system of public economy should ensure that this is so.



shillingworth of goods.<sup>1</sup> Unfortunately our knowledge of these matters is so vague that in these circumstances there would be no doubt a terrible outcry from the holders of the spare-money that they were being robbed. Whereas it is actually the holders of the claims to the new goods upon whom a felony is being committed.<sup>2</sup> From this example it is clear that *in any accounting period at the banks there must be a balance between so-called 'savings' and the expenditure of spare-money* if price levels are to remain steady; or put in another way, if the currency is at all times to balance the new goods available for distribution and exchange at the prices which should be paid for them.

### 7. *What then is property?*

A man's property, the possession proper to him, his own, rightly so called, consists of the good things he has honestly got and can skilfully use.<sup>3</sup> Every man has a sacred and eternal right to property so defined.

'Property consists of good things, not bad ones. It is rightly called, therefore, a man's "goods" and not a man's "bads"'. If you have a quantity of dung lodged in your drains, a quantity of fleas lodged in your bed, or a quantity of nonsense lodged in your brains, that is not property but the reverse thereof. The value (*life-giving power*) to you of your drains, bed and brains being thereby diminished, not increased.

'Property consists of good things, honestly got. Nothing that you have stolen or taken by force, nor anything your forebears stole or took by force, is your property. Nevertheless the benignant law of nature concerning any such holding, has always been quite manifestly that you may keep it if you can—*so only that you acknowledge none other to be the condition of your holding such things.*'

So much for the holding of property, but if you are truly to possess it in the full sense of the term it must be also something you can skilfully use. For *it is true* that you can't have your

<sup>1</sup> The existence of reserve stocks of goods does not invalidate the principle, they merely serve to mitigate the evil.

<sup>2</sup> This procedure may be well described as 'daylight robbery'.

<sup>3</sup> This definition and the comments upon it are substantially as given by John Ruskin.



pudding unless *you can eat it*. It may be composed for you of the finest plums, and paid for entirely out of your own pocket; but if you cannot stomach it, the pudding is not for you. The most that you can do in these circumstances is to prevent others from eating it. ✓

#### 8. *The investment of spare money in industry*

Summarising: We have visualised a system for the issue of claims to goods upon a labour basis against new goods as they are produced, and for the cancelling of this currency as the claims are discharged by the new goods. This procedure transfers new property of all kinds to the existing heap of property, and distributes food, clothing and other perishable necessities throughout the whole body of society. To be effective all the claims to goods must be exercised or goods will rot or become unusable and so in time make worthless any undischarged claims. This is happening now, although our present lack-of-system operates to obscure the fact that it is so. It follows from these facts that the focal point in this system is the balancing of currency issues against the goods produced week by week and month by month, so that there is never a time when the currency is not one hundred per cent represented by goods *at the actual prices to be paid for them*.

The extension of the right of choice in the discharge of claims to goods (currency) to include the right to make no choice at all, makes this balancing impossible unless week by week the sum saved balances money withdrawn from savings. This raises the question as to whether the spare-money invested in industry in the same period is to be regarded as 'withdrawals from savings'.

#### 9. *The distinction between true savings and capital*

The definition of capital attributed to Jevons does not take into account the way in which spare-money is used, for it may be used in a manner which is socially good or in one which is socially bad. For example, when money is put on one side against a rainy day or old age and is then used in the normal way to sustain life, it is being used in a wholly sensible manner which can have no ill effect upon anyone if the political economy observes the savings balance. If



it does not, it is not the fault of the individual if the monetary system is made unsound by his savings, but solely that of the administration, for how is an individual to know how much he should save against these events? On the other hand, if savings are accumulated for the purpose of lending money at interest—usury—untold insecurity and misery may be introduced by it into the lives of countless others. It is therefore essential in civilisation to distinguish clearly between socially bad and socially good uses of spare money if progress is to be made.

The first step is to distinguish true savings. These are sums of money or quantities of goods put aside to be used in times of adversity or of special need or in old age. It is clearly the duty of any state to encourage this exercise of discretion or providence in its citizens and to see that this factor is not allowed to affect adversely the goods-currency balance.

It is helpful to know that the U.S.S.R. effects provision for adversity and old age collectively for its people, and that pensions and disability allowances have been found to be a straightforward annual charge upon the productivity of the community. The U.S.S.R., however, does not limit savings to this amount. Individuals are at liberty to add to this privately or through insurance. In other words, reasonable provision for adversity and old age is made for everyone by the state, but if an individual is not satisfied with the standard of living this will provide, he may add to this to his heart's content. Collective provision takes away the uncertainty concerning how much must be saved by each individual, for no one knows for how long he may have to depend upon his savings; that is, how much to put on one side in each year. This is a very important point in a system which is concerned to observe the safe limit to savings in order that its currency shall be at all times backed 100 per cent by goods. In fact, it is a vital part of the political economy of any truly civilised state. It is thus unfortunate that all spare-money has come to be spoken of as capital, for it confuses many of the vital issues involved in social progress. We must, therefore, in this inquiry regard savings and capital as two distinct uses of spare-money. We have defined savings. Let us now obtain a working definition of capital.



10. *A definition of true capital and of capitalism*

The investment of spare money in industry is clearly equivalent to a withdrawal from savings to expend upon new goods if the sum so invested is spent in this way, but not otherwise. Such sums are spent upon new buildings, plant, equipment, tools, raw materials and other goods, and are also used to pay legal charges, and other items which belong to the secondary circulation of the currency. The amount expended in this way is usually referred to as fixed capital, and the balance left over is called working or floating capital. Two further distinct uses of spare-money have been thus acknowledged.

When savings are spent by individuals upon the means of life, deferred claims to goods are being discharged, and the greater part of these goods will be consumed. But when spare-money is expended upon the erection and equipment of a factory, it is being spent upon means with which to make other goods. Factories are built and equipped to increase the output of commodities per man-hour of applied labour. This sooner or later results in a higher standard of living for everyone. When spare money is used for this purpose it not only helps to maintain the goods currency balance, but it leads to an increase in the total quantity of goods produced with a given expenditure of labour. In other words, this use of spare-money is productive, and therefore 'stands at the head' or capital of all uses of spare money. It is not however the money which becomes productive, but the machinery and plant. The money used for this purpose is simply the means by which a proportion of the labour of the country is diverted to its production.

True capital is thus distinguished from false capital by the fact that it is productive. It follows from this that money is not capital until it has been spent upon means of production, and it is then only a convenient measure of the amount of labour which has been diverted to this end. Thus, when social reformers speak of the destruction of capitalism they are not talking about either destroying true savings or true capital unless they are lunatics. And it is the instinctive objection of the people as a whole to the destruction of true savings and true capital which holds back the abolition of the socially evil uses of spare-money which are mixed up with the good, like tares with wheat.



We can now define capital as means for the production of commodities, and capitalism as uses of spare-money which have a maleficent social effect.

### II. *Capital and currency*

When a new factory is set up and goes into production, the currency paid out by its owners in order to effect the distribution of the goods it has produced is drawn, in the first instance, from a deposit of spare-money which has been placed by the owners of the factory with a bank. When the goods are sold the money received for them is paid into this account and thereafter the cycle of production and sale serves to sustain it. This prompts the question: if the currency at all times balances the goods produced at the prices paid for them, where does this initial deposit come from? It can be only currency for which goods already exist, which is not being used to claim these goods but to start up a new factory instead. If it is spent upon new buildings, plant and the equipment required for production and distribution, the goods-currency balance remains unaffected, but if some of it is used to share out the goods produced in the new factory, then a quantity of other goods of equivalent worth are being left unclaimed elsewhere.

This was not the case with a gold currency, as the gold used to distribute the goods had to be mined and minted. That is to say this proportion of the labour of the country had to be directed to the mining of gold and the minting of coins. But as gold-miners must eat, the net result of this procedure was to reduce the standard of living of the people as a whole in proportion to the amount of labour required to produce the gold coinage.<sup>1</sup> We now use paper money and only an infinitesimal fraction of the labour power of the country is absorbed in its production. This means that labour is released for the production of consumers' goods if it is put to work, but if not, so much unemployment is inevitably created. In other words, the so-called floating or working capital is not capital at all but is actually currency. This is socially non-productive and should be treated as such.

<sup>1</sup> When thinking about this don't forget that when the gold has to be imported an equivalent worth of other commodities has to be exported in exchange.



12. *'Closed' and 'open' systems of currency*

This clearly means that a procedure is required to increase the currency at the same rate as the output of goods without at the same time falsely increasing the capital charges upon industry, if the goods-currency balance is to be maintained under these conditions. Pound notes are printed by agreement with the state, and the banks through the Bank of England can have as many of them as they can obtain securities for. Put in a more practical way, the banks can supply currency on demand to anyone provided they can implement a promise to repay the amount demanded by a claim to property which the bank can sell to recover this sum in the event of default. A limit is placed to the total amount which can be made available in this way by agreement between the Treasury and the Bank of England. This is changed from time to time and is known as the fiduciary issue.

The point to observe here is that with a goods-currency balance this amount should be fixed by the demand for currency to distribute new goods as they are produced and not by agreement between the Treasury and the Bank. It is actually the total sum demanded by all the distributors and producers in the country week by week and month by month, and it ought not to be limited by any other considerations. Moreover, when the three divisions in the circulation of the currency are kept distinct from one another, this sum will be accurately known, and the fiduciary issue can be kept up with this only if it is not pegged down to a fixed sum. To get this clear let us consider what happens when the fiduciary issue is a fixed amount and the currency is being operated at this limit. If the currency in circulation must balance new goods as they are produced at the prices paid for them, it is at once apparent that with this 'closed' system there can be no increase in the total output of commodities unless there is a corresponding fall in the price levels, or if a new firm starts up, an old firm (or its equivalent) must become bankrupt and close down. If then after a period of rapidly expanding rates of output per man-hour, such as is brought about by a war, the fiduciary issue is held at a wrongly fixed amount, the price levels of commodities will begin to fall and continue to do so until sufficient firms have been put out of business to restore a stable goods-currency balance. Such a fall in prices is referred



to as a slump, and is variously attributed to sun spots, over-production and a host of other equally incredible circumstances. Whereas it is actually brought about by the inability of the banking system to maintain the right goods-currency balance with a fixed (or reduced) fiduciary issue.

A 'closed' currency also means that when money is diverted to become the currency for the distribution of new goods produced by a new factory, or for the distribution of increases in output of old factories, some other factory or factories somewhere will be left with the goods on their hands this currency was originally created to distribute. The present currency is sometimes a closed one and sometimes an open one. It is 'closed' when it is operating at the limit of the fiduciary issue, and 'open' when a further increase has been agreed between the Treasury and the Bank, *and is actually available to industry.*

The maintenance of the right goods-currency balance clearly requires an open currency limited only by the quantity of goods produced at the prices paid for them, and never on any account by what are usually described as financial considerations. It is therefore up to the producers and distributors of the country to insist that this be done, or it is as certain as the night follows the day that they will be subjected to a repetition of the disastrous slumps which followed the first world war.

## 13. *The operation of an 'open' currency*

The distinguishing feature of an open currency is that as the total output of commodities increases the total sum in circulation also increases at the same rate. We have seen that the currency of a country is actually provided out of spare-money by investments in industry. This fact has been obscured by the printing of treasury notes for the government and their distribution through the banking system, as also has the fact that these notes only become real money (claims to goods) when the goods which make their issue possible *have been produced.* Put in another way, currency should be provided by the government through the banking system by a procedure which ensures that a pound note is not put into circulation until there is a poundsworth of new goods awaiting distribution and exchange by it. We have visualised a system of



conduct which will achieve this, but this does not take into account the false capitalising of a proportion of the labour of a country which accompanies increases in productivity.

Let us go more fully into this. The point has been made that the spare-money distributed by a new undertaking to effect the distribution of the goods it produces until the cycle of production and sale is self-sustaining, is a sum of money which was originally disbursed to effect the distribution of goods which had been already made. The diversion of these sums to other goods (assuming they are sold) thus leaves an equivalent worth of other goods out of balance; i.e. which are not covered by currency. If, however, the manufacturers of the goods thus left on the shelf have confidence in their sales picking up, they may go to the bank and obtain the currency required to keep them in stock for a while, provided they can produce the requisite security. When this is done the goods-currency balance is restored. What has happened? There has been an increase in the fiduciary issue to cover the increased output of new goods due to the new factory; an old factory has taken on a temporary overdraft which will be cancelled when the goods it has produced are sold; but a new factory has been compelled to capitalise a sum equivalent to the increase in the fiduciary issue upon which it will thereafter pay interest (dividends). Viewed socially, an old firm which has rendered signal services to the community is financially embarrassed—it has to negotiate an overdraft<sup>1</sup>—also a new firm setting out to render a similar service to the community is compelled to add a permanent addition to its costs, and its true capital is watered down by the currency required to distribute the goods it produces. This amount is governed by the rate at which stocks can be ‘turned over’. If weekly, and the accounts are paid weekly, the sum required will be one week’s wages, salaries and other drawings.

With this procedure all increases in the fiduciary issue are falsely capitalised, although the increase in the currency *itself* is indirectly put into the common pool by the state. Moreover, the effectiveness of this procedure turns upon the confidence of firms in the saleability of their goods. This procedure is clearly one of the principle causes of the unjustifiable ‘capital accumulations’ which constitute

<sup>1</sup> And this to effect an increase in currency in order to distribute goods which have been made and are in demand.



## ON CAPITAL

the evil we call capitalism. How can these be avoided? Or how can additional currency be put into circulation as new additional goods are produced in order to hold the goods-currency balance, without this amount being treated as though it were being used to create true capital? <sup>1</sup>

The starting-point here is obviously an analysis of the procedure which determines the sums spent upon capital. This is known as private enterprise, so the next step is to find out what private enterprise really is and does.

<sup>1</sup> This was written in 1941. It is interesting to note that in August 1946 the Coal Charges Account of the Ministry of Fuel and Power included a sum of ten million pounds, representing working capital 'loaned to the coal industry' to cover two months' delay in the collection of 'increases in the price of coal' consequent upon national awards of wage increases. That is to say, this problem is now appearing in our public economy in a form which sooner or later will compel the finding of a practical solution.

*This book is not helpful for  
intermediate or graduate classes.  
On the other hand will be  
good to read for honours*



## CHAPTER VI

# ON PRIVATE AND SOCIAL ENTERPRISE

### 1. *What is private enterprise?*

IF we accept the fact that a man's labour well applied is always ample to provide him during his life with all the things needful to him, we have also to accept the fact that a nation's labour well applied must be in like manner amply sufficient to provide its whole population with food, clothing and comfortable habitation. If, also, we accept the fact that no two individuals have ever been known to have precisely the same natural capacity for the same things, we must also accept the fact that individual freedom exists in the degree to which the system of conduct we call political economy provides opportunities of education and labour suitable for the full development of the particular capacities of each individual. Everyone is to a greater or less extent conscious of the need for individual freedom in order to effect this, and it is this consciousness which sustains a world-wide belief in the fundamental rightness of private enterprise. *In this view private enterprise is the manifestation in civilisation of the instinct we usually refer to as that of self-preservation. This descriptive term, however, conveys a most inadequate idea of the nature of this force, for survival is not an end in itself but only a means to an end, the end being the continuous growth and development of the individual.*

### 2. *What then is social enterprise?*

The basic problem in political economy is, therefore, that of ensuring to each member of the community the opportunities necessary to the exercise of all his faculties ; that is for continuous growth and development. This is what is meant by the statement that ' regardless of race or class every child and youth must have opportunities of education suitable for the full development of his particular capacities '. But every human capacity has two aspects, a higher and a lower, a true and a false—honesty and fraud, for example, are not two distinct human capacities, but the same faculty exercised in its generate (life-giving) form, and in its degenerate



(death-dealing) form, respectively—so that it is necessary to decide which of these aspects is to be provided for. You might say that the choice here is a matter for the individual. It would be if he lived alone. A man may defraud himself of life (as indeed many do) to any extent he may wish, either through ignorance or downright cussedness, but immediately he begins to defraud others of their right to live, *social* life becomes in the degree of this degeneration *unsocial* life. Civilisation thus demands that the capacities of individuals shall be developed to generate life and not to restrain, degrade or destroy it, so that political economy must ensure that every individual shall have every opportunity needful to the exercise and development of his particular capacities *in their highest form* and as few opportunities as possible for the exercise of these qualities in their lowest form in social life.

There is clearly no limit to the contribution private enterprise can make to social welfare in its life-giving sense. On the other hand, there is no place whatever in social life for private enterprise in its death-dealing aspect. You can therefore have as much private enterprise as you like in the private exercise of your own faculties, but not in the public exercise of them. Thus, when a man goes into business, as we say, upon his own account, he should be free to do this socially only as long as his enterprise does not affect adversely the lives of others. That is, he must produce 'bread that is bread' or 'ale that is ale', and must observe the social requirement 'that a worker, whether in field or factory, is entitled to a living wage, wholesome surroundings and a recognised voice in the decisions which affect his welfare as a worker'.

When the exercise of private enterprise in industry produces slums, unemployment and all the misery and suffering which these entail, it is being exercised in its degenerate form. This form of private enterprise must be therefore steadily but nevertheless inexorably stamped out. We know that the application of private enterprise is being brought more and more under social influences, and that in industrial councils, in works committees and in co-partnership enterprises, this social element has reached a high stage of development. Is there a limit to this? Does this mean that social enterprise should take the place of private enterprise? The truth of the matter is that when private enterprise is exercised in its life-giving sense, it is also social enterprise.



3. *What does private enterprise do?*

If every individual is to have the unchallengeable right to develop his particular capacities *in their highest form*, every individual must have the right to submit any ideas he may have for new commodities, or for improvements in existing commodities or services, not to arbitrary public authority, to bureaucratic officials or to vested interests (unregulated monopolies), but directly and upon his own initiative, to the social test of what we now call 'going into business upon his own account'. Whatever his motives may be, this is the only practical test of the social worth or otherwise of his notions. It is in fact the only test satisfactory to the individual, for no conclave of 'experts' can approach the decisiveness of the social factors which are then brought to bear upon this particular matter.<sup>1</sup> For, as John Ruskin observed, in a science dealing with elements so subtle as those of human nature, 'it is only possible for individuals or committees to answer for the final worth of principles and never for the direct success of plans'.

If a system of social control was to withdraw this right from the individual the effect would be to make the exercise of private enterprise a matter for a privileged class, and the problem would sooner or later become one of compelling this class to exercise its private enterprise in a wholly beneficent manner.<sup>2</sup> The point here is that you cannot eliminate private enterprise, you can only limit its application in such a manner that its social effect is wholly good, and experience indicates that the 'socialisation' of industry in a true sense is a gradual process which is governed by the rate of growth in moral stature<sup>3</sup> of employers and of those employed by them. The main point here is that no order of society is safe for very long in the hands of a few clever people, however socialistic they may profess to be, without the intelligent co-operation and understanding of the average man and woman.

<sup>1</sup> Experience indicates that the public may turn down ideas of definite social worth; ideas which we say are 'before their time'. This, however, is not evidence in favour of appeals to experts, as they are much more conservative in their judgments than the public. The expert more often than not is too much concerned with safeguarding his reputation, for we will not face the fact that experts at their best can do no more than express an opinion upon principles.

<sup>2</sup> That is, from becoming an unregulated monopoly.

<sup>3</sup> There are of course many who are engaged in business on their own account with a moral stature 'less than nothing'. A true political economy would make this impossible.



Private enterprise is thus seen to be a system of conduct in which increases in productivity spring from the initiative of private individuals as distinct from that of authorities appointed for the purpose by the state. It provides the maximum possible freedom for the growth and development of individuals, and provided this freedom is limited to activities which do not affect adversely the lives of others it is also social enterprise. Under these conditions 'each man seeking his own would serve the commonweal', and excessive capital accumulations could not occur. This does not, however, dispose of the fact that private enterprise cannot of itself secure the right of everyone to work, and it is this fact which really sustains the view that only a collective form of social enterprise can effect this.

The collective form of social enterprise involves national planning of the work to be done in such a manner that there is work for everyone to do. If, however, we follow up this point at this stage we shall lose sight of the immediate aim, which is to devise a system of conduct by which the goods-currency balance can be maintained with a steadily rising output of commodities without 'capitalising' the additions to the currency. It is, however, now clear that we have to consider this point in terms of private enterprise and also in terms of a collective form of social enterprise.

#### 4. *The creation of capital under private enterprise*

We have seen that under private enterprise some of the labour spare-money represents is diverted to the production of capital by investments in industry, and the monetary system imposes upon this procedure the additional requirement of providing the currency required to distribute the new goods produced. The amount of this is determined by the cycle of production and sale for the particular commodities which are being produced. If these goods, however, cannot be sold (that is, if the social test is not successful), the suppliers of the spare-money are left with the means of production the money has bought and the goods they have produced. They have in effect purchased these items for themselves and so spent their spare-money. The social order and the currency thus remains unaffected by these transactions. It will be observed that an unsuccessful venture thus adds nothing to the capital of the



country, and imposes no charges upon the community as a whole. A successful venture, however, for good or ill, results in the private control of the means of production and the false capitalising of the extra currency required to distribute and exchange the additional new goods produced.

## *5. The creation of capital under collective social enterprise*

Under a collective form of social enterprise, labour is diverted to the production of capital in accordance with a nationally planned programme for the production of commodities. Hence, in these circumstances, if 20 per cent of the labour of a country is to be devoted to increasing the means of production, a procedure must be devised to distribute the consumers' goods which represent 80 per cent of the labour of the country to 100 per cent of the population, for all must eat. That is to say, the currency in circulation must only be capable of purchasing only 80 per cent of the goods produced, and the prices of the commodities produced must be controlled to effect this.

The paper currency of such a state has to be distributed through a banking system, as with private enterprise, so that this procedure must not only, directly or indirectly, distribute 80 per cent of the goods produced to the whole community, but it must also provide additional currency whenever the total output of goods is increased without capitalising this amount. In other words, the problems under view are common to both private and social enterprise. But, with social enterprise, an unsuccessful venture is a charge upon the community as a whole and the responsibility of central planners, whose position in these circumstances would not be a very enviable one. This is in fact an irremediable weakness in the national planning of any activity, other than public works. It leads inevitably to the appointment of safe-planners and the control of planning by rule-book office holders (bureaucrats) of all kinds, instead of by men of vision.

## *6. The maintenance of the currency-goods balance with increases in production*

The problem here is to effect increases in the fiduciary issue with increases in production without capitalising these sums. This



would be solved if the state supplied the currency required to distribute the goods produced. The difficulty is to ascertain the sum required. This will differ from one factory or distributory to another, but for any given undertaking there will be clearly a determinable ratio of currency demand to labour employed (or net turnover). If, therefore, undertakings were allowed to draw currency in accordance with this ratio for the distribution of their produce without first depositing securities with the banks, the difficulty would be overcome.

This would mean that future additions to capital expenditure in private enterprise would be taken first upon the present currency holdings (the conversion of so-called floating capital) and thereafter by stock representing only true capital issues. *Incidentally, the value of this ratio of currency demand to labour employed (or net turnover) is at once an index to the worth of the capital stock of any undertaking at any time and this figure would be known to the banks.*

With new undertakings and private enterprise a period would have to be allowed during which the currency net turnover ratio was being established, and during which securities would be required by the banks against currency demands. With social enterprise the permissible currency demands would be met on an appropriate currency net turnover basis, as any losses would be carried by the community as a whole.

The issue here is clearly whether industry or the government is to be responsible for the supply of currency with which to distribute goods as they are produced. Meanwhile, let there be an end to the fiction that true currency is provided by any other agency than industry. You may say, this is all very well, but what about the credits granted by the banks to industry, by one firm to another and by one industry to another? Isn't the granting of credit by banks just as good as an increase in currency?

#### 7. *The part played by credit in the goods-currency balance*

The cycle in the manufacture and sale of commodities includes a period between the delivery of goods and the payment for them. If this is seven days, a seven days' credit has been allowed to the purchaser; if a month, a month's credit, and so on. The granting of these credits is possible only if the firms granting them have



sufficient cash reserves to sustain the continuance of manufacture over this period. That is, if they can claim equivalent currency from the banks either from a deposit or as a bank credit.

We have seen that, socially, deposits are simply idle currency, and that these sums are the basis of the bank-deposit system which should be operated to keep the whole amount continuously in use by bank credit. When this is done, further demands for currency which cannot be met by this means are obviously demands for an increase in the fiduciary issue. Credit is thus seen to be part of the machinery by which all the money is kept continuously in use day by day, and with an open currency it is limited in amount by the goods awaiting distribution and exchange. With the system under view the limit actually observed is the goods awaiting distribution and exchange at the prices paid for them.

But what of goods which cannot be sold? The granting of credits does not absolve manufacturers and distributors from balancing their accounts at yearly intervals. This balancing includes the writing off of stocks of goods which are not in demand, and so goods which are not sold will reduce the sums to be distributed at the close of each accounting period.

## *8. Savings and the goods-currency balance*

We can now clearly set out the relationship between savings and the goods-currency balance. Saving spare-money will destroy this balance and create unemployment unless it is at once put back into circulation by one means or another. There are many ways in which this can be done. These are :

By withdrawals from savings.

By investments in industry, directly or indirectly through insurance, assurance, building societies or private loans.

By bank credits, i.e. the bank-deposit system.

The first item to be effective of itself will require withdrawals from savings to balance new savings deposited.

With investments, the firms receiving new capital will increase their credit balances at the banks, but these will be balanced by corresponding debits in the banking accounts of the investors, so that the position is unaffected by these transactions until the ' new



capital' is spent. When this is done there will be a decrease in these credit balances which will be again balanced in the banking system as a whole by corresponding receipts for goods sold. In other words, we are here concerned with keeping the total bank deposits in use from day to day, and with nothing more.

It is helpful here to recall the procedure in the bank-deposit system. The basis of this is the currency held by the banks for their customers and the problem to be solved is how to keep the whole of this amount in actual use until it is called for. The system actually keeps about 90 per cent of this total in circulation at present; the remaining 10 per cent (180-200 million pounds on pre-war figures) being retained as a reserve to meet an imaginary sudden demand for cash by depositors. We know from experience that such a demand only arises when the depositors lose confidence in the system. This cannot occur with a currency backed 100 per cent by existing goods, provided the public is satisfied that this is so. Put in another way, spare or idle money accruing in any accounting period represents currency which must be put back into circulation *at once* if we are to avoid creating unemployment. Industry already holds goods equivalent to this sum or the sum would not exist, and industry wants the security given by stable prices and a stable currency. What then is to be done with these goods and the uncanceled claims to them? The problem is to devise means which will cause the goods to be used and the claims to be cancelled,<sup>1</sup> as by doing this we shall obtain stability in currency, in prices, in employment, in wages and in capital returns.

The first step towards a solution is to recognise in this figure the *scientific limit* to the bank-deposit system. This amount is secured by goods, and the banks should be concerned to operate at the limit, as anything short of this means unemployment, and anything more than this would be to perpetrate a fraud, for there would be no goods to meet these (extra) documentary claims to goods. It is therefore clear that the bank-deposit system should be operated to keep all the money held by the banks in use. It is of course a very easy thing to say the banks must always operate at this limit, but spare-money is not a sign of demand for goods

<sup>1</sup> Bernard Shaw is explicit upon the social significance of this point in his *Intelligent Woman's Guide*. He says: 'May I remind you again . . . that this spare-money is really spare subsistence, mainly perishable stuff which must be used at once.'



but of the absence of demand, so we shall have to inquire into the nature of the demand which might be created specifically to meet this very practical difficulty.

### *9. The payment of interest upon bank deposits*

Saving has been shown to be a social privilege which is only tolerable in a civilised state if the political economy protects the community as a whole from its mischievous effects. The first condition attached to this privilege must obviously be that savings be kept in savings bank accounts, the state can then in return guarantee the complete and absolute safety of these amounts by operating an honest monetary system such that savings are always backed one hundred per cent by goods which are in demand. But to give a reward in the form of interest to all persons withholding currency from circulation, and thereby causing unemployment, is not merely absurd, it is a form of lunacy. There should be therefore no question of the payment of interest upon bank deposits. Saving to any appreciable degree other than through bank accounts or their equivalent<sup>1</sup> should carry penalties, and the reason why 'long-stocking' saving cannot be permitted should be made clear to everyone.

### *10. Summary*

The starting-point of this industrial system is the initial deposit of producers and distributors in the banks, and the first fact to be observed is that if left at this stage these deposits provide the currency which is distributed to claim the goods produced; i.e. they provide the fiduciary issue and determine its limit from day to day.

The second fact to be observed is that the currency described above will be backed 100 per cent by goods at the actual prices paid for them only as long as the money is spent at once, or within a given balancing period. The balancing period in general is one year, and meantime the money which is not immediately spent,

<sup>1</sup> It may, of course, be necessary to allow a 'spot' of interest on savings for some time until the public has been thoroughly versed in the moral principles involved.



i.e. which is in suspense, is balanced by goods in suspense, i.e. in stock.

Money in suspense is not spare-money as there is never any money to spare in true public economy. It may be spare to the individual but it is not spare to the social order. When money is 'put on one side' by an individual, an equivalent amount of goods which have already been made has to be 'put on one side' also if the balance is maintained.

Owing to the division of labour, money is not simply a means for the sharing out of the goods in a given factory among those who produce them, but by virtue of the social privilege to chose equivalent goods from other factories, it is also the means by which freedom of choice is obtained of many things in exchange for one. It is this privilege which obscures the fact that when 10 pounds-worth of goods is made and 10 pound notes have been withdrawn from the bank and paid out to those who have produced the goods in order to distribute them, they must be exchanged for these goods or their equivalent in other goods, or the whole system will be thrown out of balance with disastrous social results.

The present bank-deposit system actually keeps about 90 per cent of the currency in continuous use. *The balance, which is not kept in use, is a measure of the unemployment created by withholding 10 per cent of the total currency from the markets.*

The bank-deposit system therefore should be operated to keep all the currency in continuous use. The point here is that when this is done every pound note will be represented by one pounds-worth of goods which is in demand at the prices actually to be paid for them. Whereas with 90 per cent in use *the so-called 10 per cent reserve is actually worth only the paper it is made of*, unless its equivalent in gold is held by the banks. Even then it is only 'worth its weight in gold' and not in other goods, for unless someone can be found to accept the gold instead of normal commodities, the goods-currency balance cannot be sustained. There is of course a theoretical balance which would break down at once if everyone went to the market for other goods, as indeed the great majority always do. The fact which has been overlooked here is that the right of choice of many things in exchange for one compels industry to back its currency with goods which are in actual demand. Moreover, freedom of choice cannot be sustained if 10 per cent of



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the goods available consists of bars of gold, unless the bankers themselves are prepared to buy it, and when they do they actually take 10 per cent of the currency out of circulation when the gold is mined abroad. Put in another way, the goods exported in exchange for gold reduce the standard of living of the community by an equivalent amount; the community receiving in exchange for them a gold-backed currency which they could quite well secure for themselves with consumers' goods alone, and then enjoy a higher standard of living. This procedure, however, has the great merit that no unemployment is created by it if the gold imported is paid for by the export of equivalent goods.

A further point which arises here is that when all the money is kept at work in this way savings withdrawn will balance savings deposited. Another important point also is that savings are clearly made up of money which is spare to individuals, and provided it is kept at work through bank-deposits the social privilege we call saving can have no ill effect upon the right to work of anyone.

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## CHAPTER VII

# PLANNING AND PUBLIC WORKS

### 1. *On national and rational planning*

THE point has been made that the collective form of social enterprise involves the planning of the work to be done in such a manner that there is work for everyone to do. There are two systems of conduct or political economies by which the right to work may be secured and honoured for everyone. These are :

- (1) The state can so plan the work to be done that everyone has a share in it.
- (2) The state can give everyone freedom to provide work for themselves and for others to do, and for those who are not then accommodated or who prefer to have work found for them, the state can arrange accordingly.

There is, of course, no system when all the members of an industrial community have to find work for themselves.

### 2. *On national collective social planning*

The right of choice of many things in exchange for one is fundamental in civilisation. Without it the freedom of the individual would be greatly restrained both in the things produced and in the exercise and development of personal ability and taste. On the other hand, the granting of this social right creates for political economy the difficulty of securing an effective demand for the goods produced, for unless this be achieved there cannot be economic freedom for everyone. In short, some members of the community will be unemployed.

It has been customary and convenient to believe that the supply of any commodity will automatically adjust itself to the demand if no attempt is made to interfere with this so-called 'natural process'. The existence of millions of unemployed in Europe and the U.S.A. between the two great wars, all of whom could have eaten more, worn more and enjoyed better conditions of life, is conclusive



proof that there are no grounds whatever for this belief. It is this fact which has really led to a demand for planned national economies, and it is generally accepted that national planning will be one of the principal features of the post-war world. Incidentally the doctrine of 'no planning whatsoever' associated with Adam Smith (1776) was a reaction against the restriction of individual freedom which had been found to be a necessary part of control of production by the state. It was therefore perfectly clear to Fichte in the year 1800 that planning of this order required nothing less than the regimentation of the whole of the people if it was to be successful. In fact, it is impossible to reconcile the exercise of the choice of the individual concerning what he shall eat, what he shall drink, how he shall dress and in what surroundings he shall live, with national planning to meet these requirements. The truth in this matter is that social planning of this order is a makeshift in civilisation, for it involves the subordination of individual requirements to what the state can 'nationally plan for them', and is therefore opposed to the natural growth and development of individuals. Moreover, it is no use planning to supply everyone with a pair of pants if they won't wear them when they are made. This difficulty does not crop up when the people have no pants to wear, not enough to eat and inadequate places to live in. In these circumstances anything is better than nothing, and you can have 'five-year plans' to provide everyone with a pair of pants, with more bread and adequate supplies of primary necessities without regimentation. In fact, personal freedom is increased by doing so, especially if you include in these plans a thoroughgoing system of adult education. This, broadly speaking, is what has happened in Russia.

The difficulties begin when new and improved qualities of goods are planned and supplied. The demand continues for 'what the people have become accustomed to', and the new goods are left. This has been known to be true of currencies for several centuries, but it has required the Russian experiments in social planning to establish beyond dispute that it is true of all commodities. Thus in the U.S.S.R. the government has had to open shops to display new and improved commodities in order to create a demand for them. This is, of course, nothing more than another aspect of the 'repeat order' tendency exhibited by undertakings



of all kinds, which is such a delight to the commercial travellers who are in and a horrible nightmare to those who are out. We thus have a picture of national planning changing from supplying everyone with one each of every necessary thing which they did not previously possess, to adding one each of every necessary thing different from the first, accompanied by the systematic development of personal taste and more personal freedom.

But how are you going to plan for a people that has already reached a relatively advanced personal-taste stage in social development. You must clearly either make them submit to regimentation, thus limiting freedom of choice to what can be nationally planned for them, or make their continuously varying demand the basis for social planning.

This fundamental difficulty in both industrial and social planning is tritely illustrated in the following extract from the *Literary Digest* for October 8th, 1932.<sup>1</sup>

'Treacherous hips, unpatriotic shoulders, felonious feet and subversive pounds which pop out in the wrong places are, we hear, playing hob with the "Buy British" campaign—in England at least, if not in other parts of the Empire. Great outrage is felt because many British girls and women do not grow into the national stock sizes of large, small or medium, and this is taken to be an unpatriotic attack on the British dress-goods business.

'Female British feet are also straying in forbidden by-paths. Some of them are even developing insteps, a condition which is not allowed for in local shoe lasts . . .'

We are here obviously concerned with the root problem how to reconcile the right to individual freedom with the achievement of economic security. And it should be clear that collective social planning can be justified only if economic security for everyone cannot be attained without the sacrifice of the personal freedom which this procedure obviously entails.

### 3. On rational planning

We know from experience that private enterprise cannot of itself guarantee the right to work of everyone even when it is exercised by each individual in a manner which does not affect

<sup>1</sup> An article based upon a letter to *The Times*.



adversely the lives of others. Moreover, as the division of labour becomes more specialised and complex the number of unemployed must inevitably increase, *not because men wish it so*, but because the more diverse the division of labour the greater becomes the need for co-ordination in its direction if everyone is to be effectively employed. It is therefore impossible to obtain a socially satisfactory political economy upon this basis *alone*.

But the right of choice of the individual regarding what he shall eat, what he shall drink, what he shall wear and in what surroundings he shall live, refers to what may be called consumers' goods. These do not constitute the whole output of a community. There are also public works, and these are distinguished by the fact that they can be nationally planned without imposing any restrictions upon the freedom of individuals. In fact, when rightly planned in a cultural sense, they greatly extend this freedom by providing opportunities for development which can be only obtained by collective or social enterprise. We thus have two kinds of activities. One which cannot be nationally planned without seriously curtailing the freedom of the individual, and another which can be planned only as social enterprise, and which when rightly conceived extends the range of individual freedom. If, therefore, the conduct of public works could be arranged to absorb the balance between the free demand for consumers' goods and the total output when every worker is employed, we should be well on the way to the achievement of the economic security for everyone which we are seeking. Moreover, this system of conduct would not involve the regimentation of the people, but would actually extend the range of individual freedoms. The next step therefore is to examine the conduct of public works from this standpoint.

#### 4. *On public works*

Public works are the outcome of social enterprise, and we have to consider how such works can be transferred to the heap of existing property without adversely affecting the political economy of the state. Rightly understood public works are commodities *in use* which are held by all alike. The transfer required is not therefore to individuals as individuals, but to 'a pile of property'



to which every individual in a state has precisely the same rights. This being so their production involves an expenditure by the authorities of part of the national income on behalf of everyone. They must therefore cancel out currency available for the distribution of goods by a like amount. It is, however, customary to borrow spare-money from individuals for this purpose, and to treat a public work for a time, and very often permanently, as though it was privately owned instead of publicly owned property.

In other words, we refuse to face what has been called 'the psychological difficulty of raising money at once', and resort to 'a policy of progress by loans'. This produces an intolerable burden of debt charges<sup>1</sup> which choke social enterprise at its source and in time make the further development of public works impossible. Consider, for example, a loan of £10,000 taken up each year for forty years to be expended on public works in a given locality, and which is repaid by equal annual instalments of principal *plus* the interest charges on the diminishing balances. At the end of forty years the interest paid will amount to £276,740 and the repayment of principal to £205,000, but there will still be an outstanding debt of £195,000. So that, instead of a simple straightforward direct annual charge of £10,000 each year upon the community, we have at the end of forty years a direct charge made up of interest £10,250 and repayment of principal £10,000. This is more than double the annual charge which would have been made if the right procedure had been followed. The main fact in this matter, however, is that no attempt has been made to devise a rational procedure for the 'financing of public works'. The root difficulty arises from the fact that they are not planned nationally but piecemeal, and it is impossible for local authorities to obtain large sums as extra charges from the communities they serve in any given year. The 'charging-up' has to be spread over many years, or there could be no works of this kind without first saving the money. On the other hand, with national planning of public works the sum expended throughout the country can be kept at a given level year by year, with a widely varying expenditure in different localities, or in different years in the same locality without resorting 'to progress by loans'. Public works should therefore be part of a rational plan for social enterprise, and the

<sup>1</sup> This is really a secondary system of taxation.



currency required to give effect to this should be a direct charge upon the community as a whole. The question therefore arises how this is to be done? We constantly hear that we cannot afford this or that public work. The labour is available to do the work, but there is no money. What we cannot really afford is the burden of taxation which our present method of 'financing' social enterprise creates.

When the currency of a country at all times balances the goods produced at the prices paid for them, this problem is part of the greater problem of providing means for the distribution of the produce of labour (including public works) to those with a claim to them, and the difficulty presented by public works is that of devising a procedure which will effect the transfer of these works to the public without recourse to 'progress by loans' which come from only a limited section of the community.

#### 5. *The problem presented by public works*

The problem presented by public works is complicated by theorising like the following, which has been taken from a recently published treatise upon economics: 'A local authority raising a loan to construct a swimming-pool can reasonably hope to pay interest upon the loan out of the charges made for the use of the pool. When this is done, the *national output* for future years is *increased* by the addition of swimming facilities, while the *national income* is correspondingly *increased* by the interest charges.'

A swimming-pool can produce nothing except a state of comparative cleanliness and a feeling of enjoyment in those using it. This is not an addition to the national output, a term which, if it is to have any real meaning, must relate only to the production of goods. It is absurd to regard swimming facilities as producing commodities against which new currency can be drawn. A swimming-pool receives part of the currency which is made available through the labours of the persons using the bath, and the authorities who own the bath redisburse the cash they receive as wages, as payments for water, fuel and light, and for the maintenance, repair and renewal of plant. If the building of the bath is financed by a loan which requires the payment of interest, the swimming-bath charges will be increased proportionately, and the interest when



paid will be simply a redisbursement of currency issued against goods. That is, interest in these circumstances is not an addition to the national income, and the building of the bath can add nothing to national output in any year, except the one in which it is built.

### *6. The transfer of public works to the public*

Currency is the means by which we distribute new goods as they are made to those with a claim to them, and when these claims have been met, the currency drawn to effect their distribution is cancelled. It would, however, be absurd to distribute public works in this way, as they are in effect distributed immediately they become available for public use. The difficulty here is not then the equitable distribution of public works to those with a claim to them, but the fact that those who labour to produce them must eat. We must therefore give to them an equivalent claim in the common pool of consumers' goods. That is to say, we must allow currency to be drawn against both consumers' goods and public works, although no currency is required to distribute public works.

If the total sum so drawn in a given period is one million pounds, and of this eight hundred thousand pounds are drawn against consumers' goods and two hundred thousand pounds against public works, we have one million pounds to present in the market for eight hundred thousand poundsworth of transferable goods. What then happens? In these circumstances one million pounds can purchase only eight hundred thousand poundsworth of consumers' goods. That is, price changes become necessary to compensate for the fact that public works do not reach the market, as they are automatically transferred to those with a claim to them as they are made. Put in another way, the problem is how to distribute the consumers' goods which are available for distribution and exchange over a given period, not only among those who produce them, but also among those engaged upon public works, which by virtue of being public are already in effect distributed to the whole community alike.

If we assume, for the purpose of an example, that 20 per cent of the output of a country consists of public works, and the remain-



ing 80 per cent of other commodities, we have to distribute 80 per cent of the total produce over the whole of the labour employed upon both public works and distributable commodities. And, to be logical, this should be done by an all-round increase in consumers' commodity prices amounting to 25 per cent.<sup>1</sup> Hence the simplest and at the same time the honest way to effect this distribution is to make the charges for public works direct upon the banking accounts of producers and distributors of the goods available for distribution. With a scientific banking system this could be done by the transfer to a public works account of two pounds for every eight pounds of currency drawn by currency cheques from these accounts. The producers and distributors would then have to increase the prices of their commodities to collect these amounts and the financing of public works could then be by loans from a central public fund, which would carry no interest charges.<sup>2</sup>

This procedure would clearly effect a perfect distribution of the available goods to everyone with a claim to them. There would be no forms to fill, no assessments to make, just a straight charge in the exchange rates of commodities which everyone could understand, and this would follow the authorisation by the government of schemes for public works at, say, yearly intervals.<sup>3</sup> Public works would thus be paid for once and once only, and there would be no additional burden of taxation upon industry due to the payment of interest.

This can be regarded as a form of compulsory saving in which a proportion of the labour of everyone is, in effect, diverted to the production of public works. A similar result would be attained if everyone were compelled to save a proportion of their income to be devoted by the government to this purpose, on which 'interest' was paid annually; when, provided the contributions were proportional to income, with taxation proportional to income

<sup>1</sup> Alternatively, 20 per cent of the total sum received by manufacturers and distributors and which falls in the primary circulation must be collected as taxation or in some other way, but what a waste of labour this entails.

<sup>2</sup> At first sight it looks as though 'poor old industry' is 'catching out' again. What about contributions from the secondary circulation? If the contribution is taken from industry in the manner described, it is actually taken from everyone, because currency is drawn against the commodity prices actually obtained, and the higher commodity prices are common to everyone.

<sup>3</sup> A three- or five-year period would appear more satisfactory than one year.



also, everyone would, through taxation, pay the interest on their savings invested in public works *plus* the cost of collection and the disbursement of these sums. The standard of living of the country as a whole would, however, be lower with this method owing to the cost of operating this cumbersome procedure. A similar effect could be obtained by simply issuing currency as required to meet public works requirements, and then allowing price levels for consumers' goods to adjust themselves in the manner to which we are accustomed.<sup>1</sup> The honest way, however, is to make the charges direct and enforce a strict adherence to the authorised changes in commodity prices, if this should be necessary. Incidentally, all estimates, authorisations and costs relating to public works *should be made public*, and an honorary board of industrialists should be appointed to scan these costs and see that the money so provided is not wasted.

## 7. *The problem presented by idle money*

The holding of a balance between the demand for consumers' goods and for public works such that the right to work of everyone is duly honoured, does not necessarily mean that all the money will be kept at work all the time. This will only be so when the savings deposited in any period (directly or indirectly) with the banks is balanced by withdrawals from savings deposits. This occurs when the banks are able to operate the bank-deposit system in such a manner that there is no idle money. We have, however, to face the fact that the savings deposited in any period may exceed the savings withdrawn and that in these circumstances it will not be possible to keep all the money at work. In short, an equivalent amount of unemployment will be created unless means are adopted to correct the goods-currency balance.

There are two factors to take into account here :

(1) The fact that salaries, directors' fees, bonuses and dividends are not paid weekly, although the goods these sums are finally

<sup>1</sup> It has been recently stated by J. M. Keynes that wages now amount to 16 million pounds per day and that goods exist for workers to buy equivalent only to 12 million pounds per day. Therefore, 4 million pounds per day must be diverted to the government to purchase other goods (armaments) which are not available to the workers. This is being done partly by voluntary and partly by compulsory saving (22nd December, 1941).



drawn against have been produced. This raises the question of the stocking of goods.

(2) The fact that the purchasing power created by the goods produced may not be equitably distributed among those with a claim to them. This raises the question of the adequacy or otherwise of the wages, salaries and bonus levels.

### 8. *On idle money and unemployment*

The greater the number of persons employed, the greater the output of goods, the greater the currency and the greater the amount of spare-money. A currency based upon labour will therefore be strongest when it represents the labour of the whole people; that is, when the greatest possible number of the citizens of a state is at work. In short, when everyone is productively employed.

Since spare-money is currency drawn against goods *which have been produced*, and its withdrawal from circulation leaves these goods unclaimed, it is idle spare-money which creates unemployment. Hence, when all the labour of a country is employed, it can only be kept so by keeping all the spare-money employed also. In a true political economy there is therefore no room for either idle hands or idle money.<sup>1</sup>

### 9. *The storing of goods. A national store*

When new goods are at all times balanced by currency, the stocks of goods which accumulate in any period will be equivalent to additions to savings in that period, if prices be maintained (by putting goods into stock), and no labour is laid off (i.e. there is no unemployment). In these circumstances there will be in the country a national store equivalent to the sums awaiting disbursement as salaries, rents, rates, taxes, dividends and the like, plus other goods equivalent to sums invested in stocks by manufacturers and distributors. This allows a limited fluctuation in the savings balance which can be estimated. It does not, however, provide reserve stocks of essential foodstuffs and raw materials sufficient to protect a community against the immediate effect upon supplies of unforeseen circumstances, such as those brought

<sup>1</sup> Germany has shown that this is not a theory but a hard practical fact.



## PLANNING AND PUBLIC WORKS

about by war. To meet this requirement we need to create and maintain a national store. If this is done out of savings by the procedure of investments, wastages and interest charges will have to be met out of the final price charged for these goods when they are made available to the public. The only satisfactory way therefore is to create and maintain a national store as part of the permanent public works programme we have visualised, and to pay for these goods as for public works. This will enable them to be transferred to the market at normal price levels and so serve also as a means for stabilising the prices of imported raw materials for industry.

This raises the question what shall be put into the national store. The principle involved is that of the seven lean and the seven fat years of the story of Joseph in Egypt, and it is clearly a function of government to direct what commodities shall be put into the national store in a given period, and the quantities of each.

A national store, however, does not necessarily mean great warehouses under government control, but rather natural storehouse extensions of existing industrial premises, with a constant chain-like movement of stocks (so that they are always fresh or up-to-date), under control of producers and distributors, subject to regular government inspection and audit, and operated from first to last in the interests of the labour and capital employed in the industries concerned. For if this be achieved, then the best interests of the community will be also served.

At the end of this second world war we have a national store, and if we again foolishly disburse the nation's stocks at such prices as can be obtained for them in unstable markets, the country will not only be selling part of the nation's birthright for a mess of pottage, but it will be deliberately making the solution of the problem of creating employment for everyone much more difficult. This national store should be obviously put on to this basis at once, and all bureaucratic methods for its control should be abolished at the earliest possible moment.

A national store aims at 'long-range security' for everyone. It does not create an additional demand for goods but puts goods on one side in a given period which would be otherwise consumed in that period. It can therefore make only a limited contribution to the solution of the problem presented by excessive savings.



## ECONOMICS FOR EVERYMAN

### 10. *Is 'the right to save' really necessary?*

The point has been made that individuals cannot be held responsible for improvidence due to the haphazard application of labour power, and that it is the responsibility of the state to adopt a system of conduct which will protect the individual from distress due to this. If this responsibility were discharged the immediate effect would be to abolish unemployment and establish pensions and disablement allowances upon an adequate basis for everyone. In these circumstances saving to meet fundamental needs would cease to be solely a matter for the individual. But this would not cut out the need for the exercise of providence by individuals, as 'adequate' pensions are not likely to satisfy the tastes of everyone in their old age or retirement. Moreover, there would still be saving for house purchase, the maintenance of homes, the acquisition of motor-cars, and the thousand and one other things which cannot be obtained in the normal way as the need or the desire arises for them. Thus, even if everyone were to be paid alike for his labour, and the state were to take a proportion of the earnings of everyone to provide pensions and disablement allowances, it would still be necessary to take steps to keep all the money at work, or the exercise of the right of choice of many things in exchange for one would still tend to create unemployment and the other evils we are concerned to abolish.<sup>1</sup> There is also the requirement that everyone must have opportunities of education and labour suitable for the full development of his particular capacities. The right to save is thus clearly a necessary part of individual freedom, so that we must decide what is to be done to correct the goods-currency balance *when the savings deposited in a given period exceed the withdrawals from savings in that period.*

### 11. *Is there then a limit to savings?*

If everyone saved all the money he received for his labour, the goods he produced would remain undistributed, industry would be brought to a standstill, the goods would rot, and the money would then be worthless. But, you will say, this is a

<sup>1</sup> The payment of everyone alike has often been advocated as a cure for the social evils we are concerned to abolish. It should now be clear that such a procedure does not simplify the major problems in civilisation.



ridiculous and impossible situation, everyone can't save. Of course not. There is a limit to saving, and a right understanding of the economy of a civilised community requires that this limit should be known and observed. The point here is not that there shall be no unemployment but that *those who save shall have their money fully secured at all times by real goods, and not by paper claims (promissory notes) to imaginary goods.* Suppose, for example, you lend your money to the state and the time comes for its repayment, but the goods are not available in the country to meet your claims, what then? The government can either give you back your money (claims to goods) and you can get what goods you can for it, a procedure which is sound only if the sums involved are relatively small and can be met in some measure by goods out of stock; or it must, if the sums be large, renew the loan, as the effect of its repayment upon industry would be disastrous.

True currency is drawn only against goods which *already exist*, for what is the use of issuing claims to goods if there are no goods to claim? It is not the usual practice to pay for goods before they are made. If, therefore, you want your money to be safe and worth no less next year than it is to-day, you will demand that there be no unemployment, as for every man unemployed so much spare-money is made worthless, and equivalent claims are actually worth precisely as much as the paper they are printed on. This is perhaps so startling that we had better recapitulate the facts. True currency is issued in effect against goods as they are produced. If some of the money is not used to claim the goods, the goods must be put into stock, or if perishable they must rot, or commodity prices must fall so that someone else can use or consume them. When commodity prices fall in this way the demand is exceeding the supply, so industry slows down and unemployment follows.

But you might say: 'Why not put equivalent goods into stock?' A manufacturer cannot do this without paying those he employs to make them, and how can he do this when you by saving (making no use of the sum saved) are withholding the money which alone can provide for this to be done?<sup>1</sup> The

<sup>1</sup> But, you may ask, what about effecting the balance by 'social' credit, that is, by credit created other than through the banks in the manner described. Ignoring the fact that such credit is not backed by available goods, the notion that the issue



operational approach to this situation thus demands the abolition of unemployment in order that savings shall be safe, and the maintenance of price levels also demands that the amount saved in any year shall not exceed the amount spent out of savings in the same year. Here it must be borne in mind that expenditure out of savings includes investments whether by private individuals, by the banks, by insurance companies or by building societies.

The truth here for the holders of spare-money is that this money is only worth its equivalent in consumers' goods, when there is no unemployment, and that this is none the less true because the operation of this fundamental natural law has been hidden by a false economy for so long. Everyone wants security, and regarded scientifically, *the truth of the matter is that there can be no real and lasting security for the first of us until it be achieved for the last of us also.* Regarded morally, it has been written: 'I will give unto this last even as unto thee', and it is now apparent that if we deny security to the last one of us, God has ordained that in that measure it shall be denied to the first one of us also.

## 12. *How to keep savings within the safe limit*

When savings exceed the limit imposed by the demand for spare-money *plus* withdrawals from savings, the goods-currency balance is disturbed, and spare-money and labour of precisely equivalent amounts are rendered insecure. Saving must be therefore limited to this amount. But how? The problem is to limit the accumulation of spare-money, as its effect upon the social structure is beneficent up to this limit, and thereafter wholly evil.

Suppose, for example, that 20 per cent of the total output of a country consists of public works; that these are paid for by industry as a direct charge, and that the prices of commodities are adjusted so that 80 per cent of the total output (i.e. the consumers' goods) can be distributed equitably over the whole of the workers engaged in industry. Also, that in these circumstances, the savings

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of claims to goods before the goods are available for distribution is not merely putting the cart before the horse, but taking the risk that neither a horse nor a cart may issue from the procedure. In short, human beings will not usually work to 'earn money' when they can get money without working. It is only morally, scientifically and commercially sound to keep money up with the production of goods, for any other procedure cannot be effectively controlled.



deposited are greater in amount than the demand for spare-money and withdrawals from savings. What is to be done with the amount left idle? How can it be put to work? The existence of idle money means that goods have been produced which have not been claimed, and when this occurs labour is laid off and production is reduced. Security in these circumstances is then only to be obtained by increasing the active purchasing power of a section of the community which can be relied upon to spend the money. That is, of the workers paid on the lower wages levels, or of workers in the industries whose increase in output is in the main responsible for the accumulations of goods which must be distributed almost at once.

The safe limit to savings is thus seen to be not only the point at which private provision to meet future liabilities exactly balances withdrawals from savings to meet such liabilities *plus* the 'capital' required by industry; but also the point at which a revision of wage rates or industrial bonuses is demanded by the monetary system and not by the workers themselves.<sup>1</sup> Moreover, this sum must be disbursed almost at once or the whole financial structure will become unstable.

## 13. *Should interest be paid on spare-money?*

Spare-money is deposited with the banks for safe-keeping, but the mere keeping of documentary claims to goods (money) does not and never has guaranteed to a depositor that he will get his money's worth when he finally withdraws his money and takes it to the market. It has in theory, but in practice roughly only about one in ten could have gold (goods) exactly equivalent to his claim, and because gold cannot be eaten, not one in a million has called for it, but all have got what they could for their money in other markets. If, however, currency is issued in effect against goods as they are produced, and savings in any period are balanced by withdrawals from savings deposits *plus* money which is invested, then all savings will be at all times one hundred per cent guaranteed by existing goods which are in demand.

<sup>1</sup> It is difficult to imagine a more revolutionary notion than this. The picture of an old-world financier increasing the wages of his employees in order to make his own savings secure is not quite what one expects even from a scientific inquiry.



When spare-money is invested in industry some of it becomes the currency for the distribution and exchange of the goods produced, and the rest is used to purchase the means of production. That is to provide the tools and machinery of production and of distribution.<sup>1</sup> This procedure has a definite social value<sup>2</sup> as the initial stage of starting up a factory is a social test which, if successful, will increase the national output and the national income. But if the venture is socially a failure, then those who put up the money are left with the goods their enterprise has produced. In other words, their venture cancels out the spare-money they invested in the business, and that expended upon tools and tackle and getting ready for production is usually a dead loss to them. The body politic remains unaffected.

When spare-money is used in this way it is clearly productive. Tools and tackle increase the output per man-hour of labour, and the increase in currency benefits the secondary circulation. It is therefore reasonable that the spare-money spent in this way should be remunerated, just as labour is remunerated. These payments are usually described as interest on capital, and the sum distributed in this way is described as a profit.<sup>3</sup> In this view it is neither interest nor profit, but just capital remuneration. This is paid out of a trading margin,<sup>4</sup> which incidentally serves a useful purpose in the balancing of the commodity prices fixed for factory purposes, against the sums actually received.

Consider next money invested in the building of a house through a building society. Here the element of risk is not so great, and the social benefit as regards currency and goods production applies only to the year in which the house is built. We thus have capital remuneration for productivity in the year the house is built *plus* charges for services rendered, expressed as a percentage upon the sum provided. It should, however, be publicly known what these sums actually amount to and how they are arrived at, in order to remove any suspicion that the *actual rate of charge* might be excessive for this class of service. Moreover, the services should

<sup>1</sup> Including shops and shop fittings, etc.

<sup>2</sup> This is true even if the sole motive is one of 'making money' (which is not always the case).

<sup>3</sup> For a definition of profit see Chapter XV, § 16.

<sup>4</sup> The trading margin is in some cases the capital remuneration, and in others capital remuneration *plus* bonuses.



include valuations in order that there shall be no suspicion of compulsory extras which are morally indefensible, and the charges should clearly be at a lower rate than the remuneration allowed money invested in industry.

Savings which are not expended upon means of production are non-productive. There is no risk in depositing money with a bank if the currency be an honest one, and the fact that the banks must put the money to work if it is to be met by goods when it is finally withdrawn and taken to the market, does not entitle the depositor to any remuneration, but, if anything, to a bank charge for securing it. And money which is not deposited with the banks, but which is saved in the proverbial long stocking, must in course of time become worthless, as it is withheld from the economy through which the state maintains the goods-currency balance. The procedure indicated here is a periodic change in the design of treasury notes, and the cancellation of the legality of old designs after the elapse of a reasonable period.

### 14. *The conduct of industry as public works*

There is a school of thought relating to social reconstruction which is based upon the notion that the transfer of the means of production to common ownership is the only way to achieve economic security for everyone. This would involve the conversion of all sections of industry to become branches of a colossal scheme of public works. If this were done the following major problems would still have to be solved :

- (1) How to maintain an honest currency ; that is, a goods-currency balance.
- (2) How to increase the fiduciary issue with increases in productivity.
- (3) How to divert a proportion of the labour or earnings of the country to the production of public works.
- (4) How to hold a balance between consumers' goods and public works, such that there is no unemployment.
- (5) How to keep savings within the safe limit.

And there would be added to these the following equally difficult problems which are at present solved by private enterprise:



- (6) How much labour to divert to the production of capital in order to increase the output of consumers' and other goods.
- (7) What industries should increase their means of production (capital) and to what extent.
- (8) What new goods should be produced and by whom they should be produced.

The advocates of common ownership are actuated by a desire to eliminate the accumulations of false capital through which the labour of the country as a whole is exploited for the benefit of a few. There can be no doubt that this will have to be achieved before a stable social order can be obtained. It is, however, extremely doubtful whether this could ever be attained by effecting common ownership of the means of production.

It is usually taken as granted that the control of the capital (means of production) of a country by the state would lead to a higher standard of living for the people as a whole. This assumption is, however, untenable. What would actually happen would be that in place of the dividends of industry we would have a state charge for a bureaucratic administration, which may or may not be less than the charges it has displaced. Moreover, this inquiry has revealed that the present procedure for the creation of currency and for the transfer of works to public ownership has led to a vast accumulation of interest charges, for which there is no moral justification whatsoever, and for which neither private enterprise in industry nor industrialists are to blame. And when these charges are analysed they are seen to operate as a brake upon industrial progress and to have arisen from the failure of successive governments to see what was really happening.<sup>1</sup> No particular political party can be wholly blamed for this, and no political party is free from blame in that they have not provided a practical solution to some of these administrative problems. It is thus clear that 'common ownership of the means of production' can be nothing more than a catch-phrase until it is made clear precisely how it is to be effected.

Suppose, now, you adopt a rational procedure for the creation

<sup>1</sup> Our financial dispositions have been always haphazard and makeshift. There has been no plan; just one 'damned financial crisis after another from which nothing fundamental has been learnt'—The Macmillan Report.



of currency, with a scientifically operated banking system to maintain the goods-currency balance, and that public works are financed as true social enterprise. What would you have done? You would have removed two of the main sources of the excessive and wholly false 'capital accumulations' which all right-thinking persons are satisfied lie at the root of our major social difficulties. You cannot eliminate the accumulation of true capital (means of production) without as it were 'cutting your own throat'. The issue then would be whether the development of true capital was to be a matter for private enterprise or a matter for a central planning authority.

But although the transfer of the means of production to the state would not solve any of the major practical problems which arise in the development of a rational social order such as we have so far considered, it is helpful to see precisely what it would do. Let us therefore assume that the country has decided to take over the means of production and has set up a central planning authority (a bureaucracy) to direct and administer the whole of industry thereafter.

The first point to note is that this has not yet been done in any country. In Russia the state took over the land and the minerals, and then with the aid of a financial procedure which must be very close to the one we have devised for the 'financing' of public works, it proceeded to build up an industry based upon methods developed by private enterprise principally in America, Britain and Germany. That is to say, the Russians did not transfer to public ownership an already highly developed industry such as ours, nor did a central planning authority create one.<sup>1</sup> We must therefore ask: What would happen if the state took over British industry? It would have no alternative but to hand the manufacturies and distributories back again to those accustomed to manage and work them. What then would be effected? The state would hand them back presumably subject to the proviso that for the future they must not by their operation affect adversely the lives of those who work in them, or the lives of any other members of the community. It would in addition set up a central control with extensive administrative staffs

<sup>1</sup> It reproduced one by a repeat order procedure what had been invented and proved sound elsewhere. This fact, however, must not be allowed to obscure the enterprise exercised in the choice of plant, or the fact that the state solved the problem of 'financing' such works.



and offices. The payment of dividends on capital would be thus abolished,<sup>1</sup> and if the state was sincere in its approach to the solution of the social problem under view, it would at the same time abolish the payment of interest in any form whatsoever.

On the other hand, the case for private enterprise is that only private enterprise has ever created improvements in the means of production. We have to remember that committees as committees or governments as governments cannot have bright ideas of this order. It is physiologically impossible for them to do so. New ideas can originate only with individuals, and unfortunately there is no means of knowing which. Moreover, you can't train men for this.<sup>2</sup> The point here is that such individuals must have the right and the freedom to try out and develop their own ideas. This may be allowed subject to the proviso that when a man goes into business, as we say, upon his own account,<sup>3</sup> he is free to continue in this only so long as his enterprise does not affect adversely the lives of others. That is, he must produce 'bread that is bread', 'ale that is ale', and must observe the social requirement 'that a worker whether in field or factory is entitled to a living wage, wholesome surroundings and a recognised voice in the decisions which affect his welfare as a worker'. When this is done rationally you have common ownership of the means of production invested in the natural-born leaders of industrial enterprise.

The case for common ownership of the means of production invested in a central planning authority then turns upon whether such an authority would cost less and be more enterprising than direction through private enterprise, and whether the standard of living of the people would be proportionately increased. There would obviously have to be many salaried officials equally as well paid as the industrialists they displaced, but with a vital difference. They would be secured in their positions and salaries not by their ability to maintain output and develop the means of production, but by the bureaucracy itself. There is therefore much more to this so-called system of private enterprise than meets the eye. For

<sup>1</sup> The payment of compensation to the present owners in the form of government securities would of course merely change the payment of dividends from one form to another and maybe to a lower rate owing to the reduced risk.

<sup>2</sup> You can, however, quite easily and more likely train them out of it.

<sup>3</sup> When a man adds to the means of production or to the total output of goods with a given amount of labour he is actually in business on everyone's account, whether he likes to think so or not.



## PLANNING AND PUBLIC WORKS

example, an incompetent employer under the conditions we are discussing will put himself out of business by his own foolishness, but who is to discharge a clever but incompetent public planning authority ?

### 15. *The case for the nationalisation of industry*

There is no case for the nationalisation of an industry whose products and enterprise lead public taste and which satisfies the social demands made upon it by the community. Such industries are ideally led and administered from whatever angle they are viewed. But an established industry which has fallen into the hands of 'safe' administrators, or unscrupulous owners of the 'milk it dry' variety, which has lost its initiative and enterprise, and whose true capital assets are not being adequately maintained, must, in the interests of the community, have its enterprise restored. This requires vital changes in leadership as distinct from ownership, and if it can be shown that these changes cannot be secured unless there be first a change in ownership, there is a case for the state to acquire control.





## CHAPTER VIII

# ON THE DIRECTION OF LABOUR POWER

### 1. *The need for co-ordination in the application of labour power*

WE have visualised a rational economy for the abolition of unemployment which depends for its success upon holding a balance between the demand for consumers' goods *plus* the demand for means of production (true capital) and the employment of the total available labour power. In doing this we have lumped together the demand by consumers for all kinds of goods, and also the demand for a great variety of public works. This procedure is satisfactory only in so far as it has served to establish the principle of absorbing all the spare labour by public works in order to honour the right to work of everyone. We have still to consider in detail precisely how the direction of labour power is to be co-ordinated to this end. This raises in another form the question of central or national planning. The points have been made that public works are actually paid for in labour and therefore in currency in the year they are constructed, and that the utterly fantastic and morally indefensible procedure of transferring them to public ownership by private loans is due very largely to the fact that they have been in the main the outcome of local enterprise. Centralised or national planning is therefore necessary to prevent the construction of public works perpetuating the socially bad accumulations of false capital to which independent local planning inevitably gives rise. A central or national planning authority is thus required for public works, in order that the requisite amount of currency and the labour it represents can be diverted to this end. This does not mean that local planning should be abolished but that it should be part of a national plan for the production of both utilitarian and cultural public works.

There is an equally unassailable case for the production of consumers' goods by private enterprise, subject to the social requirement that the operation of any branch of industry must not affect adversely the lives of those who labour in it, or the lives of any other members of the community, and the provision of currency



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by the state. The deciding factor here is that it is no use planning to supply everyone with a pair of pants or one each of any other commodity, if when they are delivered the persons receiving them won't wear or use them.<sup>1</sup> We have already as a nation reached the personal-taste stage in social development, and this requires that the supply of consumers' goods shall begin and end with the consumers, and not with what a central authority can plan for them.

In considering these points, however, we have to remember that the central planning of public works has yet to be established by social enterprise upon a thoroughly efficient basis. On the other hand, private enterprise has actually created the amazing productivity of modern industry without which works of this order would be impossible. The rational approach to this problem thus requires a central planning authority for public works, and an extremely flexible organisation for the supply of consumers' goods and means of production, actuated by the actual demands of the users. Both procedures are concerned with balancing the demand for commodities by the effective application of labour power. We must therefore consider how these activities can be co-ordinated so that wastage of labour is at a minimum and there is no unemployment.

### *2. The law of supply and demand of the classical economists*

The proportion of the labour of a country which is employed in the production of consumers' goods and means of production depends primarily upon the demand for these commodities, and secondarily upon the extent to which this can be made effective; that is, which can be met by private enterprise. The clarification of this issue thus involves a consideration of both supply and demand.

According to the law of supply and demand of classical economics the supply will automatically adjust itself to the demand if this 'natural law' is left free to operate. But in factory administration this so-called law is ignored. Production is planned to the last detail. It is not left to any department automatically to balance its supply of parts to the demand from the assembly sheds. The demand is ascertained and the supply is adjusted to it, not

<sup>1</sup> The 'pants' problem does not crop up with public works.



by the operation of any natural law but by an industrial economy. What is true for a factory is equally true for a country. There is no *natural law* of supply and demand, but simply the scientific fact that supply and demand must be balanced by the application in political economy of the principle of co-ordination in the direction of labour power, and this arises from the division of labour. We have seen that economic security can be obtained for everyone, only when there is neither idle hands nor idle money. That is, when there is no reservoir of unemployed to draw upon to meet fluctuations in the demand for specific commodities. When this is achieved, how are these fluctuations to be met?

### 3. *How fluctuations in demand are to be met*

The normal fluctuations in the demand for consumers' goods can be met to a certain extent out of stocks created specifically for the purpose, but experience indicates that this procedure is not enough. This provision can be reinforced in some trades by working into and out from a national store, but once again there are limits. So that the crux of the matter is that flexibility is required in output, and this must not be obtained by 'laying off' labour or 'taking on' additional hands if unemployment is to be abolished.

Suppose now that the standard working day in a particular industry is eight hours and that the demand for the commodities produced is being met by working 'full time', a falling demand can be clearly balanced by reducing the working day in increments of the standard (six minutes), and a rising demand by increasing the working day similarly. To use this method effectively a minimum and a maximum working day would need to be fixed, so that when the minimum was being approached arrangements could be made for the transfer of labour to other industries; and when the maximum working day was being reached, a demand for additional labour could be made. Put in another way, this means that industry should be organised on the basis of a guaranteed minimum week and thus abolish the use of casual labour.

When operating in this way an industry would have as it were the stewardship for a given quantity of labour power, and it would meet increases in production per man-hour by reducing the working day until transfers of labour to other industries could become



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effective.<sup>1</sup> Demands for labour would also be met by improvements in methods of production, and labour would be also made available for new tasks in this same way. This procedure would abolish the use of labour exchanges as dumps where labour can be put down or picked up at will. The main work of the exchanges would then be to facilitate the transfer of labour from one industry to another, or from one branch of an industry to another, in order to keep up with changes in the demand for different commodities.

### *4. Joint Industrial Councils*

With the above procedure each branch of industry would have the stewardship for a given quantity of labour power. In the first instance this would be the quantity of labour then employed in any given branch and thereafter the quantity required to meet the demand for the commodities produced. We can therefore now ask how this stewardship in industry can be made effective?

The National Joint Industrial Councils which have been developed since the first world war for the improvement of industrial relationships clearly present a means by which this can be done. They would of course have to be compulsorily extended to every branch of industry, and they would need to keep a statistical account of the labour entrusted to them. National Joint Industrial Councils are at present made up of representatives of Employers' Associations and representatives of Trade Unions. The organisation also includes District Councils similarly constituted, and Works Committees made up of representatives of the management and workers in individual factories.

The first Report on Joint Standing Industrial Councils included the suggestion that the National Councils should consider or allocate the following items for the consideration of District Councils or Works Committees :

- (1) The more effective use of the practical knowledge and experience of the workpeople.
- (2) Means for securing to the workpeople a greater share in, and responsibility for, the determination and observance of the conditions under which their work is carried on.

<sup>1</sup> In time there would be also an increase in leisure.



## ECONOMICS FOR EVERYMAN

- (3) The settlement of the general principles governing the conditions of employment, including the methods of fixing, paying and readjusting wages, having regard to the need for securing to the workpeople a share in the increased prosperity of industry.
- (4) The establishment of regular methods of negotiation upon issues arising between employers and workpeople, with a view both to the prevention of differences, and to their better adjustment when they appear.
- (5) Means of ensuring to the workpeople the greatest possible security of earnings and employment, without undue restriction upon change of occupation or employer.
- (6) Methods of fixing and adjusting earnings, piecework prices, etc., and of dealing with the many difficulties which arise with regard to the method and amount of payment, apart from the fixing of general standard rates, which are already covered by (3).
- (7) Technical education and training.
- (8) Industrial research and the full use of the results obtained.
- (9) The provision of facilities for the full consideration and use of inventions and improvements designed by workpeople, and for the adequate safeguarding of the rights of the designers of such improvements.
- (10) Improvements of processes, machinery and organisation, and the consideration of appropriate questions relating to management and the examination of industrial experiments, with special reference to co-operation in carrying new ideas into effect, and full consideration of the workpeople's point of view in relation to them.
- (11) Proposed legislation affecting the industry.

The item to note is number (7). This relates to technical education and training, and serves to draw our attention to the fact that the transfer of labour to different tasks involves the education and training of workers for those tasks.

### *5. The extension of the Joint Industrial Councils*

We are concerned to put all the available labour to work and the organisation which affects this must provide the necessary



facilities for education and training. Actually the training of workers for new tasks is simply an extension of the initial education and training designed to prepare workers for an industrial or any other occupation, and the feeding of industry with newly trained workers is clearly a main function of a Minister of Labour. On the other hand, the responsibility for the welfare of the labour provided for different industries should obviously fall jointly upon the employers and workers in each industry, and the training required for specific tasks is also primarily a matter for the branches of industry which creates them. The organisation required for the effective direction of labour power thus involves the co-ordination of the activities of the technical and other training schools, the labour exchanges and the joint industrial councils. And, since the conduct of training schools and colleges and the labour exchanges is conditioned by industry with its demands known to the joint industrial councils, the organisation centres itself naturally on the National Joint Industrial Council. If therefore we extend the constitution of the National and District Joint Industrial Councils to include representatives from the Ministry of Labour and from the Technical and other Training Schools for the discussion and handling of all matters relating to the transfer and training of workers, we shall have an organisation capable of directing the rank and file of the labour power of the country, which will give also to the working man 'a recognised voice in the decisions which affect his welfare as a worker'.

This does not cover the activities of professional bodies like the Institution of Civil Engineers, the Institution of Mechanical Engineers, the Royal Institution of British Architects, and so on, through the activities of which a knowledge of technical developments of all kinds is made available to everyone, and whose publications are directly or indirectly the basis of technological textbooks. There should be therefore a definite linking up of these bodies with the extended system of Joint Industrial Councils set out above. These institutions lay down conditions of membership which include a more or less thorough-going technological training, and they conduct examinations in the subjects required to enforce this. Candidates for membership are usually at liberty to obtain their training in any way they please, submitting themselves for examination from time to time as progress is made. They may also draw



up 'recommended scales' of professional fees and of remuneration for typical administrative posts. The influence of these professions upon the system outlined for the direction of labour power is therefore direct. Their members very largely decide how the labour is actually employed and divided up in individual factories and works, and these men are also responsible in one way or another for the developments in methods of production which are constantly releasing labour power for new tasks. Their members also serve on the Works Committees and represent the managements on the District and National Joint Industrial Councils.

We can therefore conclude that the arrangements for the training and examination of members of the professions, with adequate numbers from this standpoint, are reasonably satisfactory, and that they would have adequate representation upon Joint Industrial Councils of this order without special provision being required to secure this. What they have not got, is full recognition of the right to put forward 'scales of reasonable remuneration' for professional services. One of the difficulties here is that the passing of an examination cannot make a man into a successful industrialist or administrator. There is much more to it than this, and up to the present it has not been found possible to evolve a test of 'due care and management' in the conduct of undertakings which would enable salaries to be effectively tied to a standard of production. The point here is that it is unwise to enforce the payment of a definite salary to a man appointed to a given post simply because he has passed certain examinations and/or attained membership of a particular profession.<sup>1</sup> The salary should be contingent upon his being able to exercise due care and management in the conduct of the undertaking or stewardship with which he is charged. When such a test is possible, the scales drawn up by professional bodies of this kind can be agreed with a National Joint Industrial Council appointed and maintained in each industry for this purpose, but only in exceptional circumstances should membership of these bodies be made a compulsory qualifying factor for any post.<sup>2</sup> For

<sup>1</sup> This procedure is bad socially as well as industrially as it creates unnatural classes in a community.

<sup>2</sup> The conferring of the right upon medical doctors to certify the cause of death has led to this profession setting up a course of training which (by agreement with the state) confers this right upon individuals who satisfactorily conclude it. This has become a compulsory qualifying factor for medical practitioners. No other profession is faced with this peculiar social problem.



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when the following of a certain procedure in attaining membership of a given institution does produce a superior type of say, engineer-administrator, it will not be long before those responsible for making such appointments will seek out these men and these men only. But when appointments are made to depend upon the possession of paper qualifications of this kind the wrong type of candidate is very often attracted and industry suffers accordingly.<sup>1</sup>

### 6. *The training and transfer of labour to new tasks*

It is sufficient for the purpose under view to accept the viewpoint of Ruskin regarding the responsibility of the state for the education and training of its citizens. He wrote: 'the child should . . . imperatively be taught, with the best skill of teaching that the country can produce, the following three things:

- (a) the laws of health and the conduct enjoined by them;
- (b) habits of gentleness and justice; and
- (c) the calling by which he is to live.'

We are here specifically concerned with securing the right to work of everyone and therefore with 'the calling by which he is to live'. And if we accept the fact, that the object of industry is not primarily the production of goods, but the creation of contented human beings, we have also to accept the fact that no-one can say beforehand in what calling he or she will be able to attain a reasonable degree of contentment in life. Moreover, there is no way in which we can find this out other than by trial and error. There must be therefore not only the right to freedom of choice for the individual as to the work he will do, so far as it is available for him to do, but also freedom to effect a change of occupation. This also follows from the principle of private enterprise and from the right that 'everyone should have to buy or sell without any discriminatory restrictions anything which may be lawfully bought or sold, in such quantities and with such reservations as are compatible with the common welfare'.

When industry is viewed as a whole instead of as a heterogeneous mass of contending interests, and the right to work of everyone is

<sup>1</sup> British industry is already suffering from an overdose of this type of candidate, and we know also from the breakdown of the mercantile system in the eighteenth century, that this procedure inevitably leads to an intolerable form of bureaucracy.



honoured, the loss of a day's work by anyone will be seen to be not merely a loss to the individual concerned, but also a loss to the community as a whole, for there is a proportionate drop in the total output. It should be clear also that a community of skilled tradesmen will be proportionately better off, as far as commodities go, than a community of unskilled labourers. That is to say, there should be a steady and continuous effort in every state to increase the number of skilled workers to a maximum and to reduce the number of unskilled labourers to a minimum. In fact, the aim in civilisation should be to eliminate the need for unskilled labour altogether. Thus, when the right to work is guaranteed to everyone, there should be no difficulty in finding trainees to keep the training facilities in use, quite apart from the courses necessary to facilitate the normal transfer of labour to new tasks. If we can do this sort of thing in time of war, surely there is no logical reason why we should not continue to do it in time of peace. A country must be therefore prepared to undertake the training of men displaced from one branch of industry, by technical or other developments, for work in another almost at once, and to maintain both them and their families on a proper working basis during the period,<sup>1</sup> with the costs carried by the state.

The Education Act of 1921 provided for the institution of a compulsory system of part-time education and training after the close of the elementary school period. The failure to achieve this has been attributed to financial difficulties. Actually it is to be traced to the failure to appreciate the fact that skilled workmen add more to the national income than unskilled workers, and that expenditure of this kind is recouped many times over in the higher standard of living to which it leads for everyone. An important point here is that the factory man-hour basis for currency provides a criterion of the relative efficiencies of factories manufacturing the same goods, as every contributory charge is included in the factory man-hour rate of any factory. Hence, by comparison of actual factory man-hour rates the possibilities of technical improvements in production can be spotted, and followed up if this should be desirable.

<sup>1</sup> This procedure in no way interferes with the specialised training which firms rightly prefer to arrange and provide for themselves. It is introductory or complementary to it.



## ON THE DIRECTION OF LABOUR POWER

In peace-time co-ordination in the direction of labour power by government would involve no interference whatever with any industry beyond the requirement that the labour at its disposal be employed within the limits of the maximum and minimum working day agreed. In times of war the same machinery would transfer labour and even whole industries to the manufacture of armaments, and in such periods governmental direction would tend to predominate. It should be clear also that with this organisation the demand for food, clothing, and other necessities, would determine the labour employed upon their production, and priority might have to be allowed these industries in claims for labour.<sup>1</sup> It would not however be possible to substantiate such claims if the factory man-hour rates of the factories demanding labour were below the standard for the branch of industry to which they belonged. With this system it is not therefore a question of an employer demanding a supply of labour through a Joint Industrial Council and then getting it as a matter of course, but rather the reverse. There would be a request for labour by a particular firm. The request would be transmitted by the labour exchange to points in the country where labour was known to be available. Then if the firm had a sound reputation the labour would no doubt be forthcoming, but not otherwise, for the outlook of both employers and employed would undergo a profound change under the form of competition this social order would create.

### *7. The nature of the competition created by this public economy*

Competition is of two kinds. There is the competition of two dogs for a bone: they behave as though there was not another bone to be had in the whole world. There is also competition in the direction of natural forces to produce two bones where previously there was only one.

When the currency of a country is a closed one; that is, when the quantity of money is limited, the quantity of goods which can be distributed by it is also limited. And when this limit is reached an increase in production in one factory must cancel out equivalent

<sup>1</sup> Priority here would consist of nothing more than a refusal to transfer labour from any branch of industry to another (except by way of an exchange) so long as the demand balanced the supply.



production in another, or price levels must fall until either the increased productivity is checked or the more backward factory is put out of business. Moreover, those who control the money, or have more money than they need, have only to withhold these sums from the market (deliberately or by indifference) in order to dictate the terms upon which they will put it into circulation again. The competition which then arises for the available money is the same as of two dogs for a bone. A closed system of currency thus favours the holders of spare-money, and modern financiers, broadly speaking, are persons who know how to take advantage of this state of affairs. In doing so they add nothing to the output of the country,<sup>1</sup> and the deliberate withholding of currency from circulation in order to extract a high rate of interest amounts to nothing more than highway robbery by threat of starvation in place of violence. This is a thoroughly unsocial act and one which a rational social order would treat as a criminal offence.

When currency is based scientifically upon labour and there is a goods-currency balance, with provision for the systematic increase of the fiduciary issue, the currency is an open one. In these circumstances money is drawn (in effect) against goods as they are produced to precisely the sum required to distribute them, and there is no limit to the quantity of goods which can then be manufactured and exchanged except the ability of a people to make them and then to consume or use them. That is, competition as in a limited market is displaced by competition to produce the maximum quantity of the finest quality goods at the lowest possible prices. This is competition to produce two bones where previously there was only one. Under these conditions financiers will serve the community by making it possible to keep all the money at work all the time. They will not be able however to withhold money from circulation for fear of losing it, as when spare money exceeds the safe limit, the precise sum withheld has to be switched to the workers in the form of an increase in wages in order to maintain the goods-currency balance.<sup>2</sup> Moreover, when this balance is not maintained, the true savings of a country are rendered insecure by the precise sum out of balance. In other words, this must be done

<sup>1</sup> Goods equivalent to their spare-money were produced before the money they control was created.

<sup>2</sup> Not from the financiers, as such, but from the sources of the spare-money they control.



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as much in the interests of the financiers themselves as of industry. The system gives security to both. Both are necessary to the social order and should be remunerated in accordance with the worth to the community of the services they give to it. (Incidentally, we are seeking an order for society which will give economic security to everyone and it is now evident that we have found a morally sound basis for one.)

This form of competition must clearly have a most profound and beneficent effect upon the relationships between employers and employed, and if we could find a rational basis to govern the division of the produce of factories among those with a claim to it we should have opened up the way for a very great step forward in civilisation.

### 8. *The co-ordination of manufacture and distribution*

In building up an organisation for the direction of labour power we have made no attempt to distinguish between the manufacture of goods and their distribution. Do we require distinct Joint Industrial Councils for production and distribution or should there be one council only for each trade?

Currency is in effect issued against the prices actually obtained for commodities from the public, and all commodity prices cover the costs of raw materials, of manufacture and of distribution, either through wholesalers or direct to retailers. Hence every additional handling of goods will increase the number of persons with a claim to a share in these goods, and therefore the commodity price and the currency drawn against them. If 100 articles require the labour of 100 men to manufacture and distribute them in the most economical way possible, the labour of each man is equivalent to one article. If, however, an additional handling is introduced to accommodate labour to the extent of a further 10 men, the labour of each man is then equivalent to only  $100/110$ ; i.e. ten-elevenths of an article. This illustration disposes of the illusion common to many men of business, that it does not matter how many persons handle the goods they produce. Moreover, this outlook is not an honest one, because the currency drawn against the final commodity price is for the purpose of distributing these goods among those who have laboured to produce and distribute them, and if this were done in



the above example, each man would receive only ten-elevenths of the amount he would receive if the most satisfactory social procedure was followed. In practice, however, the currency does not distribute goods first of all to those who make them in proportion to their claims to them, so that a section of industry can defraud the community by its indifference to the way its goods are distributed, as the unnecessary labour used could have added to the total quantity of goods for distribution to the country as a whole.

For example, consider two sections of industry each producing 100 articles at a rate equivalent to one man per article in their distribution, and that one section then admits 10 unnecessary additional men into their system of distribution. The currency issued becomes equivalent to the labour of 210 men instead of 200; i.e. the 200 men essential to the production and distribution of these goods receive only  $200/210$ ths of what their labour could entitle them to. In other words, it is not sufficient to have an honest currency, every branch of industry must operate upon an honest basis in the manufacture and distribution of its products, employing not one man too many, as by doing so it lowers the standard of living not only of its own workers, but also that of the rest of the community.

Joint Industrial Councils should therefore cover the whole of a particular trade or branch of industry, i.e. both manufacture and distribution, and unnecessary handlings of goods should be suppressed. No legal powers are required for this, but only the fixing of commodity prices by manufacturers in consultation with distributors, such that any unnecessary handlings become a charge upon the particular distributing trade, thus lowering the standard of living of those engaged in this trade instead of that of the whole community.<sup>1</sup> Another point here is that scientific method should not be used solely to speed up output of manufactures, but equally to improve the distribution of the goods made, as inefficient distribution can quite easily cancel out for the community every advance in production as quickly as it is made. This raises the whole question of the fixing of commodity prices, and since these are the starting-point for currency issues in this operational system, we must now consider them more fully.

<sup>1</sup> If the distributing margin is 25 per cent on the selling price, this is the sum which has to be divided up between the distributors, whether there be one or twenty-one persons involved.



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## 9. Summary

The co-ordination in the direction of labour power which is required to honour the right to work of everyone involves :

- (1) A nationally planned programme of public works (financed by an interest-free procedure) with which to effect and hold a balance between the labour available and the demand for consumers' goods.
- (2) The extension of the Joint Industrial Councils and the reorganisation of the Labour Exchanges and Technical or Training Schools and Colleges to provide facilities for the transfer to and the training of labour for different tasks. This organisation is concerned with planning and facilitating such transfers, and not at all with the control of industry, or of planned production in the collective national socialist sense.
- (3) The use of minimum and maximum working days to achieve resilience in the system, and to absorb the variations in demand for specific goods, without creating a reservoir of persons temporarily unemployed.

To visualise the system as a whole let us assume that a country produces only six kinds of commodities and that the demand for each requires the same amount of labour to satisfy it. Representing the labour on each item by six we have :

Food.	Clothing.	Housing.	Machinery.	Fuel.	Articles Essential to Cultural Pursuits.
6	6	6	6	6	6

The transfer of labour from one part of industry to another will obviously hold this balance if the system effects the transfer of workers as jobs run out and become available. For example, an increase in the demand for clothing will increase the expenditure on clothing and reduce the expenditure proportionately on one or other or all the other items. The system will affect the transfer of labour displaced from these items to clothing, or clothing manufacturers will improve their methods of production, or both.

It will be seen on reflection that provided the machinery for the transfer of labour and the training of labour for new tasks is suffi-



ciently flexible<sup>1</sup> there will be no necessity for anyone to say precisely how many pairs of shoes or how many suits shall be made. And, that if all the people are able to work, the demand for all the good things of life will progressively increase. But, even in these circumstances the firms producing items one to six would labour under fears of overproduction or of slack times, and of one another. The workpeople would also be afraid of producing too much, lest labour be laid off and unemployment result. There must be therefore means for effecting a balance in such a way that the fear of overproduction or of unemployment is removed.

This is done by adding a seventh item for which the demand can be secured, namely, public works. These are planned for several years ahead, and at the start must be planned to absorb all the unemployed and leave all the women in industry and in other vital services who wish to remain in them.<sup>2</sup> As this is done the demand for the items one to six will increase, and more and more labour will be needed to produce them, until eventually labour may have to be transferred back from public works to effect a balance which will give a more satisfactory all-round standard of living.

It should then become a vital function of government to decide the proportions of the labour of the country which shall be devoted to public works and to consumers' goods *plus* the means of production (true capital) in any year or period of years.

<sup>1</sup> Short intensive courses of training will obviously have to take the place of the long-drawn-out grouped courses which characterised the technical training curriculums of the pre-war period.

<sup>2</sup> The more persons there are at work, the greater the national income and the greater the prosperity.



## CHAPTER IX

# THE PRINCIPLE OF BASIC PRICE

### I. *Introductory*

WHEN a political economy is based upon the lack of principle inherent in the use of a closed paper currency and the fortuitous application of labour power, the balancing of the effective demand against the supply can be attained only at the expense of the producers and distributors of goods ; that is, by a fluctuation in the prices paid for commodities. This follows from the fact that if a goods-currency balance is not maintained by control of the currency the prices of goods will vary with the currency in use, or in other words with the effective demand.

To get this point clear consider the production of 1 million poundsworth of goods in a given period, and the drawing of 1 million pound notes to effect their distribution and exchange. If the whole of this sum is used to claim the goods, the effective demand is also the maximum demand, and is equivalent to the goods produced, but if £100,000 of this amount is not used, the effective demand is only equivalent to nine-tenths of the goods awaiting distribution. What then happens to the goods left over ? If they cannot be stored, or if the £100,000 is withheld indefinitely from the market, these goods will rot or the price of the available commodities must fall by this amount if they are to be distributed. Such a fall in prices means that there is less money for the manufacturers and they promptly cut their rates of production in an attempt to balance the effective demand at normal price levels, and to do this they 'lay off' labour.<sup>1</sup> With the system we have built up the effective demand will be, within practical limits, always equivalent to the goods produced at the prices paid for them, and the prices paid for the commodities will govern the sums disbursed by the manufacturers and distributors to share out goods equivalent to those placed by them 'into the common pool'. In these circumstances the cycle of production and sale will be sustained without any variation in the prices of commodities.

<sup>1</sup> This illustrates also the futility of regarding money as anything more than a means for distributing the produce of industry.



When a goods-currency balance is not held in this way industrialists try to iron out the fluctuations in prices of this order by amalgamations, monopolistic enterprise and price-fixing rings, all of which are concerned with the maintenance of fixed-price levels in the face of changes in the effective demand, due primarily to the failure of the government and the banks to provide a stable currency, and secondly to unemployment.

A stable currency for industry, is a currency which at all times balances goods as they are produced at the prices received for them. On the other hand, the currency is regarded as being stable by monetary interests and governments only when it bears an agreed relationship to the gold and securities held by them independently.<sup>1</sup> This corresponds with, or produces conditions equivalent to, those obtained with a closed currency. But now that we have laid bare a scientific basis for currency which enables a goods-currency balance to be maintained, and neither the government nor the banks have any gold (1941) there can be no justification for upholding the fiction of the gold standard any longer, or for withholding from industry the stable currency which is its due. After all, *it is* the industry of the people which produces the whole of the food and property of a country, and not the so-called monetary interests. It is also clear that with the adoption of this system of conduct it would be no longer possible to justify the formation of monopolistic enterprises and price-fixing rings. They should then be abolished.

## 2. *Definitions of cost and price*

When a goods-currency balance is maintained and the supply of commodities is adjusted to the demand by co-ordinating the application of labour power to this end, the relative prices of all commodities can be only as their costs.

‘In considering this matter of the relationship between cost and price it must be realised that cost, like value, is both intrinsic and effectual. Intrinsic cost is that of getting the thing in the right

<sup>1</sup> The system here developed for the control of currency maintains the currency in a state of equivalence with the worth of new goods awaiting distribution (including gold held by the banks). It would be in a state of equivalence with the gold and securities held by the banks also if the state actually provided the currency or working capital of industry. When this is not the case, as with our system at present, this relationship is a purely theoretical one.



## THE PRINCIPLE OF BASIC PRICE

way,<sup>1</sup> effectual cost is that of getting the thing in the way we set about it. But intrinsic cost cannot be made the subject of analytical investigation (of this kind), being only partially discoverable, and that by long experience.<sup>2</sup> Effectual cost is all that the political economist can deal with ; that is to say, the cost of the thing under existing conditions, and by known processes. Cost is therefore dependent on ascertainable physical circumstances.

‘ Price, upon the other hand, is dependent on the human will. Such and such a thing is demonstrably good for so much. And it may be demonstrably bad for so much, but it remains questionable whether I choose to give so much.

‘ This choice is always a relative one. It is a choice to give a price for this rather than for that ; a resolution to have the thing, if getting it does not involve the loss of a better thing. Price depends, therefore, not only on the cost of the commodity itself, but on its relation to the cost of every other attainable thing.

‘ Further, the power of choice is always a relative one. It depends not merely on your own estimate of a thing, but upon everybody else’s estimate ; and therefore on the number and force of the will of the concurrent buyers, and on the existing quantity of the thing, in proportion to that number and force.’<sup>3</sup>

The number and force of the will of the concurrent buyers is the demand, and if this is balanced by the available supply of the commodity in question, its price will be clearly identical with its cost. In other words, *co-ordination in the direction of labour power may be regarded as the application of scientific method to securing identity of cost and price.*

### 3. *The constituent items of cost*

The point has been made that the effectual cost is dependent on ascertainable physical circumstances. What are these? They are the expenses of the production and distribution of the commodity under view, and are made up of charges for :

(1) Labour.

(2) Materials.

<sup>1</sup> The aim of scientific production methods.

<sup>2</sup> This process may be accelerated by the use of scientific method.

<sup>3</sup> *Munera Pulveris*, by John Ruskin.



- (3) Indirect expenses. These consist at present of managerial and administrative charges, rents, rates, taxes, national and other assurance, bad debts and allowances, wastage, transport, the maintenance, repair and renewal of plant, buildings and equipment, and other incidental charges.
- (4) Capital remuneration under private enterprise, or the cost of the central planning organisation under social enterprise ; plus the interest paid on government stocks of like amount if the present procedure in this matter holds.

Under private enterprise capital remuneration does not normally occur as a fixed charge except with certain classes of share holdings and shares in public utilities. What happens, is that in price fixing a trading margin is added to the estimated costs of items (1) (2) and (3) and the sum left over when the actual expenses have been paid is distributed as dividends to the shareholders. Under social enterprise there would be a fixed charge to pay towards the cost of the central planning organisation, but a trading margin would still have to be added to cover unpredictable costs such as wastage, breakages, repairs to plant and the like. The margin then left over (if any) would be distributed as a bonus or be taken over by the central authority, or, as at present, used to pay interest on government stocks.

It is necessary to be clear upon the fact that with both private and social enterprise there will always have to be a margin between the estimated cost of commodities and the prices actually received for them

This may be distributed in several ways<sup>1</sup> :

- (1) To the workpeople. This occurs when wages, salaries and incidental expenses absorb the whole of the earnings of a factory.
- (2) To the shareholders. This occurs when bonus shares are issued.
- (3) To both workpeople and shareholders. This occurs in profit-sharing and co-partnership enterprises.
- (4) To workpeople, shareholders and the community. This occurs when increases in output in a profit-sharing con-

<sup>1</sup> It must be distributed in order to maintain the goods-currency balance.



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cern are distributed in part as a reduction in the price of the commodity produced.

The need for this margin indicates that there should be a definite rate of capital remuneration for a given standard of output in each branch of industry (if the principle of capital remuneration be admitted) and then, as the distribution of all increases in production turns upon creating equivalent effective purchasing power, there will have to be minimum wages and salaries levels associated with a minimum output, and thereafter scales of bonuses corresponding to increases in output in order to attain this.<sup>1</sup> The main point here is that if no goods are produced, no money is required. And that if double the quantity of goods is produced in a given time then double the sum of money will be required to effect their distribution to those with a claim to them. In short, when currency is based scientifically on labour with a goods-currency balance, everyone will very quickly learn that it is not in the nature of things that anyone should receive something for nothing, and that the way back to prosperity is to work harder, and may be for a while, a little longer. In Pitt's words 'we may save ourselves by our exertions and Europe by our example.'

### 4. *The principle of basic price*

It is fundamental in civilisation 'that a labourer is worthy of his hire'. This is equally true in a factory. If, therefore, the organisation for the co-ordination of labour power effects a balance between the supply and the demand for commodities, the prices of commodities will be as their costs, and with the prices of commodities determined in this way, every factory will be assured of a fair and reasonable return for its produce. It will, however, be necessary to set up standards for each branch of industry or this procedure may amount to nothing more than a licence to let goods cost what they may, and this must be done in such a way that a lively competition is set up and maintained in the production of 'two ears of corn where previously there was only one'. This

<sup>1</sup> We have to get rid of the notion that a bonus is a *reward* or extra pay for increased output. It is simply a means for the *rightful* distribution of the extra goods produced to those with a claim to them.



can be effected by accepting the idea of a basic price for each commodity tied to a minimum output<sup>1</sup> with constituent items of cost which arise from the payment of (1) minimum scales of wages; (2) minimum scales of salaries; (3) minimum scales for directors' fees (private enterprise); and (4) minimum rates of capital remuneration or of contributions to a central planning authority.

The principle of basic price is thus seen to be that of ensuring to everyone the economic security which is their due in return for a given productivity or service to the community, with like pay for like productivities or services.

## *5. A practical application of the principle of basic price*<sup>2</sup>

The general notion from which this idea of basic price has been developed was first introduced in the South Metropolitan Gas Act of 1920. The South Metropolitan Gas Company was also the first company to introduce the principle of co-partnership into industry,<sup>3</sup> and this Act was designed by them to bring into a closer common interest the consumers, the workers and the shareholders. The

<sup>1</sup> At this output the minimums are paid and nothing more.

<sup>2</sup> Actually more than half the total quantity of gas sold in Great Britain is produced by basic price undertakings.

<sup>3</sup> 'Originally introduced in 1889, the co-partnership scheme of this company was revised in 1901. As revised it provided that every workman should receive a bonus or reward of three-quarters per cent of the amount of salary or wages which he had received during the year for every 1d. by which the price of gas sold by the company was below the standard price. Thus when gas had been sold by this company at 2s. 1d., i.e. 1s. below the standard price, the bonus would be  $12 \times \frac{3}{4}$ , or 9 per cent of his gross wages. Put in another way, a man receiving £3 a week would receive in wages £156 a year, which would be increased in such an event by 9 per cent or about £14. Up to 1914 the total bonus credited to co-partners of the company had reached nearly £692,000. It has been the practice to invest one-half of the bonus in the company's stock on behalf of the men, leaving them the right to realise it at any time on leaving the service of the company; the other half was left to accumulate, and could if so desired be invested in the company's stock. This scheme is under the control of a co-partnership committee consisting of the chairman and 36 members nominated by the board of directors and 36 members elected by the co-partners. Under this system every workman in the company's employ had during the pre-war years received a bonus year by year; had invested that bonus in the ordinary stock of the company, and had so become year by year to a larger extent a proprietor of stock of the company and more and more interested in the welfare of the company and in the sale of cheap gas.' *Powers of Charge of the Metropolitan Gas Companies*, by L. W. S. Rostron. See also the Report on Profit-sharing and Labour Co-partnership in the United Kingdom, published by H.M.S.O., 1920, for a consideration of the whole subject. At the end of 1935, 57 gas undertakings had co-partnership or profit-sharing schemes and these included most of the largest companies.



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proposals were based upon the idea that capital and labour are both entitled to a fair rate of remuneration. A standard return on capital, and standard rates of wages were therefore proposed, together with a reward for an increase in efficiency on the part of the management and of the workpeople, the reward being in proportion to the benefits given to the consumers in the form of a reduction in the average price of gas below a basic figure.

The scheme presents the undertaking as a partnership of shareholders, employees and consumers. Before a surplus can be earned there are two charges, the wages and salaries of the employees, and the remuneration of capital. So long as the average price of the gas sold is above the basic price the company can pay only basic rates of dividend, but if the average price of all the gas sold is below the basic price the consumer is obtaining a benefit. The sum so disbursed to consumers is calculated, and this is taken to be three-quarters of the 'total surplus profits' due to improvements in production, and of the remaining quarter so determined, half is distributed to the shareholders in the form of an increased pro-rata dividend, and the remainder is paid into a co-partnership trust fund, and allocated from it as a percentage bonus on salaries and wages.

In this stage of its development the notion of a basic price was primarily an attempt to find a way out of the difficulty of the statutory fixing of gas prices under conditions which would enable statutory companies 'with due care and management' to pay a reasonable dividend in times of war and of peace, without at the same time restricting the field of prospective sales. The main point to note, however, is that this practice arose in an industry in which each undertaking (in effect) exercises the peculiar privilege of balancing the supply against the demand for the main commodity it produces, for itself. And that the government and the public have been therefore concerned that prices should not be charged which would give an unjustifiably high rate of capital remuneration, and so limit the demand for an essential commodity. The same problem crops up in every branch of industry when the supply and the demand are balanced by co-ordination in the direction of labour power.



6. *How the relationship between the four minima and output can be fixed*

We are aiming at economic security for everyone and we have developed a straightforward practical method whereby the right to work can be guaranteed to all. We have also eliminated the conditions which lie at the root of that form of competition which is the characteristic of life in the jungle, but we have not yet devised a system of conduct which will give to everyone a reasonable standard of living. We have, however, resolved this issue into the problem of securing basic prices for all commodities built upon the minimum wages, salaries, directors' fees and capital returns<sup>1</sup> which must be paid if this problem is to be solved. And, we know from experience that the basic prices can be obtained for commodities when the supply balances the demand.

These divisions of remuneration for the production of goods or for services rendered, may, like value, be either intrinsically or only effectually correct. Remuneration is intrinsically so when it is precisely equivalent to the life-giving power or value of the goods made or of the services rendered. Unfortunately, there is, as yet, no known means of ascertaining this. In political economy we can therefore deal only with effectual remuneration. That is, with the sums paid by agreement and by known procedures under existing circumstances. If the above minima are fixed, and the payment of them is compulsory for a given standard of output in each branch of industry, a cut in prices can only arise from technical improvements which lead to higher outputs per man-hour, and then only if part of the advantage gained is passed on to the consumers in the form of a reduction in price and in the same ratio for all branches of industry. This procedure tends to the production and use of two ears of corn in place of one, so that the next part of this problem is to find out how to encourage conduct of this order without departing from the fundamental requirement we have called basic price.

Suppose now it is considered desirable to operate an industry upon this basis. How is the changeover to be effected? We will

<sup>1</sup> In the nationalisation of industries as practised today (1947), the payment of minimum capital returns is being attained through the cumbersome and costly process of transferring all holdings to the state at a fixed 'rate of interest' *guaranteed by the state*. That is, no matter how badly these industries are managed, the holders of this stock can lose nothing.



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assume that the banking system is operated on the scientific basis we have outlined, and that Joint Industrial Councils have been also established for the industry in question. In these circumstances the factory man-hour or currency rate can be ascertained independently for each factory or distributory from statistics obtained direct from the banks and from the Joint Industrial Councils.

This is :<sup>1</sup>

The total sum received for goods produced ( <i>total minus</i> <i>payments into bank</i> )	The cost of raw materials, etc. ( <i>payments by goods cheques</i> <i>from the bank record</i> )
<hr/>	
The total number of man-hours worked, including the management ( <i>from the Joint Industrial Council</i> )	

This will vary from one undertaking to another and the lowest currency rate would be normally taken as the basis for the fixing of the four minimum rates. Four scales of bonuses would be then required to bridge the gap from the minimum to the maximum currency rates and upwards from them, for no limit should be placed upon these scales. This procedure would effectively tie the four minima to output. And, when this was done, it would not be long before backward managements were aiming at the achievement of the higher currency rates with the full support of their employees, for if they did not, their best workers would take the first opportunities which presented themselves to join more efficient concerns. This solution does not, however, take account of the fact that the proportion in which the claims to the goods produced by a given factory are divided up by the four minima may not be socially an equitable one. This is a matter for a later stage in this inquiry.

### 7. *The currency rate of a factory and the costs of raw materials*

It will be observed that this currency rate is actually a measure of the earnings of a factory for which the management is directly responsible, as it does not hold the management in any way responsible for any variations which may occur in the cost of its raw materials.<sup>2</sup> This important point suggests that the currency rate used as the basis for the fixing of the four minima should

<sup>1</sup> This may be conveniently styled the *gross* currency rate.

<sup>2</sup> Raw materials will of course be marketed on the basic price principle also.



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not include two other variables, namely, rates and taxes.<sup>1</sup> This gives us a *net* currency rate which may be defined as :

$$\frac{\begin{array}{l} \text{The total sum re-} \\ \text{ceived for the} \\ \text{goods produced} \end{array} \quad \text{minus} \quad \begin{array}{l} \text{Rates and} \\ \text{taxes} \end{array} \quad \text{minus} \quad \begin{array}{l} \text{The cost of 'raw} \\ \text{materials, etc.} \\ \text{(goods cheques)} \end{array}}{\text{The total number of man-hours worked, including the management}}$$

The basis for the payment of the four minima can thus be made independent of all charges for which neither the workers nor the management are directly responsible. Incidentally it is these variables which make it impossible to fix satisfactory standard prices for commodities. Thus, in practice, the basic price would be obtained for a commodity when the net currency rate was attained on which the four minima were fixed. It also follows from these considerations that all undertakings should be left free to fix the prices of the commodities they produce and to vary them as may be necessary to take account of the variables which occur in the above expression. The position then would be that the four minima would be paid if a certain net currency rate was earned, but not otherwise, and the managements would be able to pass on to customers all the variations in the costs of raw materials and other items for which they were not responsible.

### 8. *How the prices of raw materials are controlled*

In the ultimate analysis all costs are labour costs. The costs of raw materials are therefore the cost (in labour) of obtaining them. If then every branch of industry, including the producers of raw materials, were to operate on the basic price principle there could be no fluctuations in the cost of raw materials of the order we have been considering, except for those which were imported. We have, however, visualised the maintenance of a national store, and one of its main functions should be clearly to hold sufficient stocks of imported raw materials to enable the incidence of the demand for them to be systematically levelled out, and so, by balancing the demand against the supply, to keep prices steady. There is really nothing new in this, as an exchange equalisation

<sup>1</sup> You may wonder why rents have been omitted here. It will be seen later that rents are a fixed charge. Taxes here include transfers to the public works fund.



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fund has been operated for many years in an endeavour to effect the same result by manipulating, Midas-like, stocks of gold which industry cannot use and which no one can eat. It is thus clear that only the rational co-ordination of industrial activities can yield the stable price levels so ardently desired by everyone.

### 9. *How factories are to be prevented from passing on unjustifiable increases in costs*

Although the basic price system together with the maintenance of a national store of raw materials will give stable price levels for all commodities, it is still necessary to be clear upon how we are going to prevent increases in costs due to bad management or carelessness from being passed on to the public. The first point here is that a drop in the rate of production per man-hour in a given factory means that there are fewer goods to distribute to those who labour in that factory. If, therefore, in these circumstances, the prices of the goods actually produced are increased to give these workers the same claim to equivalent goods out of the common pool as they received for their normal output, indiscretion and incompetence are being encouraged, and a fraud is being perpetrated upon the whole community. Moreover, the moral and factual justification for the fixing of the four minima is being undermined. This should not be allowed. But how is it to be prevented?

It is convenient first to consider factories or undertakings which produce one main commodity, with subsidiary lines that are really by-products. With firms which produce a single commodity the check on this factor is the output per man-hour, per man-shift or other suitable unit. Thus for a gas-works we have:

$$\frac{\text{The total quantity of gas sold in therms}}{\text{The total man-hours worked including the management}} = \text{therms per man hour}$$

If the output per man-hour remains the same, and the increased cost (if any) of raw materials has been satisfactorily added to the original price, the net currency rate will remain unchanged.<sup>1</sup>

<sup>1</sup> It is, of course, impossible to obtain this figure exactly. The tendency will be to exceed this figure slightly, in which case the excess would not be distributed on the bonus scales, but would be put to a reserve or transferred to the central public works fund.



This simple check is impossible *for each item* with firms which produce a variety of products, but the prices charged will create price levels to which all members of a given branch of industry will be compelled by public demand to conform. Hence, when price-fixing rings and the like are done away with, it will be impossible for any firm to increase the price of a given commodity by an excessive amount in comparison with other firms for a given rise in the cost of raw materials, without this factor being adversely commented upon.<sup>1</sup> Such firms would tend to lose business by this, and they should also lay themselves open to a public inquiry.<sup>2</sup> The most effective check, however, arises from the form of competition which this system introduces.

10. *The relationship between a rational form of free competition and the fixing of basic prices*

In Chapter III, § 7 we have considered how a needlemaker determines the limit to his production of needles. He progressively increases his production of needles per man-hour employed and lowers the price of them until the demand cannot be stimulated further without lowering the price below the economic limit for his factory. With a closed currency this is also a procedure for diverting a greater proportion of the purchasing power of the country to the manufacturers and distributors of needles, unless the greater quantity sold yields only the same return to everyone engaged in the trade. This is not likely to be the case. It is nevertheless the only satisfactory way to fix the prices of commodities, and provided this process is allowed to proceed unhindered together with healthy competition to make two of everything available to the community where previously there was only one, an honest price, and indeed an honest industrial civilisation, will result. Let us therefore consider to what extent this is effected by the system of conduct we have built up.

We are concerned to secure prosperity for all sections of industry

<sup>1</sup> Some variation is inevitable, and if it is not freely allowed how are the infinite varieties of skill which result in the production of the infinite varieties of designs and of qualities in a given product to be compensated.

<sup>2</sup> The point here is that a rise in the price of a commodity in a stable market will arouse the suspicions of the public, and honest trading demands that the correct reasons for this should be made known.



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alike, although not necessarily in the same degree, as this must be made to depend upon the quantity of goods produced per man-hour, or upon the intrinsic worth<sup>1</sup> of the services rendered, with like prosperity for like productivities or like services. This cannot be achieved 'officially'. Price fixing must be in the hands of the individual undertakings subject to the observance of the principle of basic price in arriving at them. We have found a statutory test that due care and management is being exercised in the conduct of public institutions and other undertakings which produce one main commodity, as a check upon the fixing of prices in accordance with these principles, but for all other undertakings the check *for each item* can be exercised only through the system of marketing the commodities produced.

Competition to produce two articles where previously there was only one is encouraged and sustained by the bonus scales which come into operation as the output per factory man-hour is progressively increased. Incompetence is discouraged by the fixing of the four minima and tying them to a given output. Assume now that in a given branch of industry only one firm is operating honestly upon this basis, this firm will be progressively improving its means and methods of production, and also the quality of its products, such that it has to stimulate the demand for them by passing on to its customers a proportion of its increased earnings. When this occurs the fixing of price levels in this branch of industry becomes very largely the prerogative of this firm. Other firms must then improve their methods of production and products to hold their positions in the market. This is socially as it should be, and precisely what we are aiming at. It is the achievement of the second point of Ruskin (Chapter II, § 10) in political economy, and we must not lose sight of the fact that when any branch of industry cannot of itself produce a 'leading firm' of this order, it becomes the duty of the government to create one. We thus see that progress in an industrial civilisation requires the observance of a co-partnership between workers, managements, shareholders and customers, and that the effective application of the principle of basic price involves the organisation of the whole of industry upon this basis.

<sup>1</sup> So far as this is covered in the demand for specific goods or qualities of a given commodity.



II. *Fixing the price of fish*

So much for manufactures, but how, for example, is the price of fish to be fixed? Here, the operations are reversed for we have to adjust the demand to the supply and not the supply to the demand. This can be done (so far as it is possible) by stimulating the demand when fish is plentiful by lowering the price, and by increasing the price when fish is scarce. We cannot therefore say that a normal day's production shall be the fish caught (produced) in eight hours and proceed with minimum and maximum considerations for the control of production as in manufacturing. We can, however, apply the same basic principles of remuneration for work done to fishing as to manufacturing.

The first point is that fishermen of all grades have the right, like any other workers, to adequate food, clothing, lodging and the necessities of life for themselves and their families in return for their labour. Their labour is also measured by time, and the payment for that time depends upon the price obtained for the 'product' just as in every other branch of industry. There is, however, no relationship between labour and production in this instance which can be approximately predetermined. A catch of fish, big or little, must pay for the labour expended upon it, and this is the figure which morally should be paid for each catch. Another point is that the fishing fleet is in time of war an important public utility, and there is no justification for treating it as socially less important in time of peace. The four minima must be therefore fixed for the remuneration of all those engaged in the trade. The problem then remains how to relate a 'catch' to the wages, etc., which have to be paid on these scales.

The point here is that a catch must be the total quantity of fish landed in a given period (say, upon a given day). A further point is that this should be handled by an organisation formed specifically for the purpose of reconciling the supply with the demand in such a manner that the basic-price principle can be observed. A public utility is at once the simplest and soundest proposition for this purpose. This body would receive, sort and grade the fish, and at the same time it would receive a statement of the basic cost of each section of the total catch. It would need to have every facility at its disposal for the spreading of supplies by cold storage



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and the like, and to control means for effecting the quickest possible delivery of fish to the markets. Its main function however would resemble that of a totalisator. It would have a quantity each of a large variety of fishes delivered to it and it would know the basic cost of obtaining them. It could therefore fix the prices for each variety such that this sum was obtained for them *plus* the margin to be added for its own services. This would not however quite meet the case, as we must have scales of bonuses as in other industries for 'increases in output' above a certain level. It would be therefore necessary to fix a standard catch,<sup>1</sup> and to arrange a scale of bonuses for all quantities greater than this which would give a drop in price to the consumer sufficient to stimulate the demand and absorb the total 'output'.

These public utilities<sup>2</sup> would fix a maximum percentage difference between the basic cost and the final price to the community by agreement with distributors and retailers which would secure a fair return to everyone, but which would not allow of 'excessive handling' except at the cost of the distributing trade itself. In these circumstances a point could be reached where a further extension of the fishing fleet would jeopardise the maintenance of the basic price levels. It would be therefore the duty of these bodies to keep the Ministry of Agriculture and Fisheries informed of the position, and a duty of the Ministry not to issue further licences to fish should this state of affairs arise. The Ministry would need to be satisfied that this point had been reached.

Fish landed by foreign boats is subject to a further consideration which cannot be dealt with until the principles which should govern trading between different civilised countries has been agreed.

### *12. Fixing the price of perishable commodities*

If we accept the fact that the payment of a basic price for manufactured commodities is an essential feature of an industrial civilisa-

<sup>1</sup> In terms of the currency required to distribute it. The basic price would be paid below this figure, but with the retail price of fish proportionately greater than the normal price.

<sup>2</sup> We are not here visualising one vast public utility for the whole country, but distinct undertakings for various districts subject to a check by the Ministry of Agriculture and Fisheries that the conditions laid down for their operation are being observed.



tion, we must also apply this principle to the production of perishable commodities like fruit. The procedure indicated here is to set up a number of standard farms, market gardens and orchards in different parts of the country to establish standards in method, and in quality and grading of produce, and so determine the basic price for a given season. These centres to be open at all times for the information and instruction of anyone in the trade concerned, and with a distinct staff for this purpose.

The four minima would have to be set for each of these districts and the marketing of the produce would have to be through public (marketing) utilities formed for the purpose of maintaining the basic prices of the commodities entrusted to them. They would institute and conduct the markets for the sale of this produce and by agreement with the producers and the distributors fix the percentage to be added to the basic prices in order to arrive at the final prices for these commodities to the community.<sup>1</sup> This percentage should be such that any unnecessary handlings would be a charge solely upon the distributing trade and the centres for the determination of basic prices should be in this instance a joint responsibility of the Ministry of Agriculture and Fisheries and of Joint Agricultural Councils, although operated in every case by a farmer, market gardener or grower who has the confidence of the trade in the district he serves.

These public marketing utilities would be charged also with making the maximum possible provision for the spreading of supplies by providing cold and other appropriate storage facilities. Arbitrary standards of production would also have to be chosen backed up by scales of bonuses in order to secure the use of the most up-to-date methods. The preservation of surplus fruit in the years of plenty and its diversion into the national store is also an obvious function of these bodies.

### 13. *Summary*

In order to secure the adequate remuneration of labour (in its broadest sense), the price of goods must be as their costs. This involves the balancing of the supply against the demand and the procedure to be followed to attain this has been visualised.

<sup>1</sup> The final price is of course another basic price.



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The moral principle involved in fixing the prices for commodities is that every member of a community is entitled to a basic price for his produce, and it is the duty of the state to secure this to him.<sup>1</sup> Nature must not be allowed to ruin fruit growers by her bounty or otherwise ; and fish must not be thrown back into the sea, or fruit allowed to rot in order to secure the basic prices in these industries. These methods of basic price control, for they can be justified on no other grounds, are worthy only of the Stone Age.

The cost-price relationship which occurs when demand and supply are balanced is fundamental in civilisation, as also is the application of the principle of basic prices for *all* commodities. But the methods used in the fixing of basic prices must be appropriate to each specific branch of industry.

<sup>1</sup> The irony here is that governments have hitherto secured this to producers of gold and for services, but not to producers of vital necessities of life, such as food, clothing or dwellings.



## CHAPTER X

# THE CAPITAL FACTOR IN BASIC PRICES AND BASIC RENTS

### 1. *Co-partnership and the capital factor in basic price*

WHEN production has been established upon the basis of the four minima with bonus scales for increases in productivity above the minimum output or currency rate per factory man-hour, with Joint Industrial Councils, and the stimulation of the demand for commodities by progressively lowering price levels, the whole of industry will be operating upon a nation-wide co-partnership basis. There will not however be co-partnership in the means of production unless the currency used to transform a proportion of the labour of the country into capital is drawn from all classes of the community.

This brings us to a consideration of the capital factor in basic price which falls under two headings :

- (1) The maintenance of the productivity of existing capital.
- (2) The creation of new capital.

### 2. *The maintenance of the productivity of existing factories and distributories*

There are three kinds of capital or means of production. The first order of capital is labour ; the second, land and minerals ; and the third, machinery, tools and tackle, or more broadly, factories and distributories.

The means of production of a country wear out just as the men who use them wear out. Of men we say that they grow old, and of tools and plant that they depreciate. Capital may be also made obsolete by new designs and methods which still further increase the possible output of commodities per man-hour. The total output of goods for distribution week by week and month by month thus depends in the main upon two things. These are the quantity and skill of the labour available to produce them, and



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the quantity and quality of the aids to production. The maintenance of the quantity and skill of the labour available depends primarily upon the number of persons available, and secondarily upon them keeping themselves in good health and spirits. The maintenance of the quantity and quality of the means of production similarly involves a continuous expenditure of labour upon repairs and renewals, or their depreciation will tend to reduce the rate of production.

The provision for the maintenance, repair and renewal of factories and distributories is not in a general sense either compulsory or fixed,<sup>1</sup> but the application of the principle of basic price requires that these items should be reduced to become fixed annual charges, if this form of capital is to be adequately and properly maintained. We must not forget also that the basic prices of commodities are governed primarily by the output per man-hour, and that given a fit man with the right spirit his output will be determined not by his skill alone but by the quality of the aids to production which are available to him.

The charges for the maintenance and renewal of factories and the like with their equipment (including allowance for obsolescence) should be therefore ascertained from experience and fixed for each branch of industry. It should then be compulsory for each section of industry to maintain its capital as new.

### 3. *The misuse of capital*

The payment of dividends all too frequently includes sums which should be put into reserve to meet the costs of maintenance, repair and renewal of plant (capital). This is very largely the direct result of treating money as though it were an indestructible form of capital which is not subject to depreciation or obsolescence; a fallacy which has arisen indirectly from the fiction known as the gold standard, by virtue of which all the money in use is always as good as gold, and from the fact that moral aspects and usury are nowadays completely disregarded.<sup>2</sup>

<sup>1</sup> It will, of course, differ for different types of plant in the same workshop, and this fact will have to be taken into account.

<sup>2</sup> This is partly the result of the confusion which has existed between the true and the false forms of capital. There has for example been no serious attempt that I know of to distinguish between usury and the remuneration of true capital.



A true workman's first thought is for his tools, and the true manufacturer's for his workpeople and then his plant; plant must be maintained and provision made for its repair or replacement year by year out of the prices received for the commodities produced. When prices are fixed too low, or dividends or drawings are too high in a particular business, capital is being spent. One usually finds such a policy followed by the business man who is in business solely for the money he can get out of it, or by directors of works whose guiding notion in business is the scanning of invoices to see from whom a discount might be wrung. Amalgamations and mergers all too frequently seek to justify themselves not by an increase in their contribution to national output, but by using 'the big stick' to cozen every farthing they can out of everyone they can. We need a higher standard of morality in business and industry, and one of the starting-points for this is to put a stop to the type of cheating in matters affecting capital which we are discussing. There should be standards of depreciation and obsolescence for all types of buildings and plant determined not by bureaucratic decrees but by agreement based upon experience within different branches of industry. It should then be a legal condition attached to the sale of all means of production that the original costs be stated together with an account of the expenditure upon repairs and renewals for the inspection of the purchaser, so that he shall know before he makes his bid, whether the capital has been adequately maintained or not.<sup>1</sup>

There is nothing new in this notion. We insist that a consumer shall know what he is paying for by having a national mark for beef, and by grading eggs, and so on. Industry buys its raw materials to specification, sells machinery and commodities of all kinds to specification, and also specifies and guarantees the quality of its products in accordance with trade agreements. New houses and buildings are built to specification and second-hand cars are bought on age and the mileage run. Capital should be therefore sold on the basis of the original cost plus proof that it has been maintained as new in accordance with agreed national standards. The selling price of dwelling houses and of all common property should be also arrived at in the same way. In fact we have to

<sup>1</sup> This has been compulsory, for example, for gas undertakings, since 1871.



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put an end to the fundamentally dishonest speculative practices which so often govern the sale of capital and property.<sup>1</sup>

### 4. *The principle that you cannot both have your cake (capital or property) and eat it*

The minimum rates of capital remuneration have been tied to fixed outputs because we cannot honestly allow claims to goods (money) to be drawn when there are no goods to be distributed by it. The earning of these rates thus depends upon the effective maintenance of the means of production. If, therefore, the charges which are included for this purpose in the basic price of commodities are not so spent there will be a corresponding wastage of capital, and, sooner or later, a corresponding drop in production per man-hour. It follows from this that the payment of the four minima must also be contingent upon the maintenance of the means of production, and that if in any accounting period the sums allowed for this are not expended in this way they must be held in reserve. The farce that capital is indestructible and eternal must be ended. A man cannot both have his capital and eat it. Similarly, property which is rented must be also maintained out of a corresponding sum included in the basic rent.<sup>2</sup> This will be ensured, as far as a matter of this kind can be ensured, if in the sale of all such property, the deeds (or a copy of them) are available to the bidders, together with reasonable proof that the property has been adequately maintained. If in these circumstances a higher price be paid than is justified, it will not be possible to pass this on to a future buyer without his being fully aware of the circumstances. Any other procedure amounts to a form of fraud which can have no place in civilisation in any form.

### 5. *The creation of new capital*

The capital of a country is the means of production it possesses. In industry this consists of labour power and of the cumulative

<sup>1</sup> Not necessarily all forms of property, but certainly property which exists in the primary necessities. It should be clear in the matter of house property, for example that nothing more is here involved than the wise expenditure of the sums allowed in rent for the maintenance of the property at its original worth.

<sup>2</sup> We shall define this later.



result of the direction of a proportion of this to the manufacture of machinery, tools, tackle and the like. The creation of new capital of the third order thus requires the diversion of a proportion of the labour power of the country to this end. This is effected under private enterprise by individuals and by industrial undertakings. It is however a proportion of the whole labour power of the country which is so transferred, and this is made possible by the exercise of the social right of the choice of many things in exchange for one. If it were not for this privilege, the makers of means of production would be unable to obtain the means of life for themselves and they would quickly divert their energies to other tasks. It follows from this that it is really a proportion of everyone's labour which is so spent. Put in another way, it is a proportion of the contribution made by each of us to the total output of the nation, which is (in effect) expended in this way. In plain terms we do not enjoy as high a standard of living as we might do now, in order that we may enjoy a still higher standard of living in the near future. We can therefore say that capital is created by each one of us in proportion to our contribution to the welfare of the state. This also means that we each of us enjoy a higher standard of living by reason of the capital we have helped to maintain and create.<sup>1</sup> But it is not necessary for each one of us to control the capital we indirectly create in order to obtain this benefit. It is, however, necessary to see that those who do direct what shall be done with it, and who are thus charged directly or indirectly with its stewardship, do not take a greater proportion of the increased output it makes possible than is justified by the contribution they make to the welfare of society.

We thus arrive at the notion that capital should be held by or for every worker in proportion to his contribution to the national welfare, and that this occurs in effect when those who control and direct the use of it obey the law of stewardship which requires them to take no more remuneration for their labour than they can effectively use. And this is true whether this function is performed through the private enterprise of individuals or by a bureaucracy. It is also true that there comes a time in the development of productivity when it is an embarrassment for those who

<sup>1</sup> Don't forget that capital has to be continuously repaired and renewed, and usually more than once in a lifetime.



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control the capital to exploit the power it gives them to help themselves to an unreasonable share of the total output. They couldn't use the goods if they did, and so many commodities won't keep. In fact, the proportion they take or receive over and above their actual needs becomes a burden to them which only the uncertainty of the future and participation in charitable enterprises makes tolerable. The moral law of the universe is to each as he deserves and in accordance with his needs, and for anyone to take more or less than this is both a trial and an embarrassment to everyone concerned.

From this we see that a socially equitable solution of the problem of how much to each is equally important to the mental welfare of both the haves and the have-nots. Both need to have their economic security assured before they can live honestly with themselves by accepting neither more nor less for their labour than they really earn and can effectively use.

### *6. The capital factor in basic price*

Consider now a firm whose goods are in steadily increasing demand and which should therefore divert a corresponding proportion of its labour power (or what is the same thing—earnings) to extending their works. Should it be a proportion of the earnings of this works only? The practice has been to use spare-money for this purpose, and this has been obtained very often from anyone willing to use his spare-money in this way. Should it be open to everyone in these circumstances to take up a share in such a concern?

The first question to answer is whether the provision of additional capital for a given branch of industry should be collected as a part of the basic price charged for the commodities produced by that branch? With social enterprise (public works) the capital costs should be so collected by the banks from the country as a whole. The contribution in these circumstances is then by everyone in proportion to the services they render to the community, provided their incomes are in proportion to their contributions to the common good. We don't yet know how to effect this proportioning with any degree of accuracy, so this procedure is as near to what is required as we can get at this stage in civilisation.



It would therefore appear that this should be also the procedure when sums are diverted to add to the means of production by private enterprise. This would, however, lead to a state where this factor occurred only in the basic prices of the commodities being produced by growing industries. Many great industries have been built up in this way, and this method is usually followed to the extent that price levels in an open market will allow, and thereafter additional sums are obtained by subscription in a more or less open spare-money market. We have, however, devised a method which will eliminate the proportion of this 'amount' which it is customary to call working capital. This is actually the currency which an irrational monetary system has compelled industry to find and falsely capitalise. There will not be therefore with this system the same necessity to obtain capital by subscription. So we must consider what would happen in these circumstances if we included in the basic price of commodities a capital factor to cover not only the repair and renewal of existing capital, but also the extension of it.

The first point to note is that a growing demand for a particular commodity, which imposes the need to extend the plant required for its production, will also allow of a margin being included in the basic price to cover this. And that when the demand is satisfied at this price, and the period of progressive reductions in price is entered upon to stimulate the demand further, that part of the capital factor which provides for an extension will be systematically reduced until finally at saturation point it will be cut out altogether. This then is the natural procedure for the development of an industry *after the initial start has been made*.

The second point to note is that if such a concern was operated upon a co-partnership basis in which this part of the capital factor in basic price was distributed pro rata to the workers, management, directors and shareholders in with the wages, salaries, directors' fees and dividends, the 'raising of new capital' would involve the collection of these amounts from them. Alternatively, these sums could be held back in a co-partnership fund and used for this purpose. Incidentally, it is not unusual in the practice of co-partnership for the workers to 'invest' a definite proportion of the co-partnership bonus in the 'stock' of the undertakings. This procedure has been therefore already partially established, although



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the determination of the sums to be so invested is a very arbitrary matter. The workers and management can of course always sell their stock, if they wish to do so, and so open up the normal subscription process.

If this procedure was put upon a basis such that the capital requirements of a growing concern were met as a factor in basic price, and then distributed to the partners of the undertaking as a co-partnership bonus which was compulsorily invested in the stock of the company, what would happen? These sums would be distributed in proportion to the wages and salaries earned, and if these effected an equitable distribution of the goods produced or their equivalent to those with a claim to them, capital accumulations would be proportionate to the services rendered. Dividends on this stock would then be in the same proportion; and this procedure would effect an equitable sharing out of the margin left over from the total sum received for the goods produced, when all the minima had been paid. In other words, dividends as dividends would disappear and all that would remain would be a socially equitable arrangement for the sharing out of the produce and of the capital of industry.

In considering this matter we must not forget that the growth of such a concern is accompanied by a systematic improvement in the quality of its produce and also a systematic lowering of the price of it. In other words, the general public is also obtaining a benefit and thus sharing in the 'capital improvements', by an amount which may or may not call for 'public subscriptions' to capital increases. But the sums expended in the initial starting up of a factory would still remain in the hands of those who had the courage and enterprise to 'risk' their spare-money in the undertaking. This raises the question what is to happen to all holdings of this kind when the holders die. To whom should their stewardship pass?

### 7. *Death duties and the capital of industry*

The development of the death duty procedure of this country has done two things. It has placed a limit to the handing on of capital, property and savings to another generation, and it has indirectly acknowledged the fact that those who build up industrial



enterprises are invariably the best men to administer them. We are at this stage concerned with capital and not with property or with savings, and the question with which we are now concerned is what should happen to holdings of the means of production (new capital) when those responsible for its creation die. The public interest demands that the capital should obviously continue to be fully used by those who have learnt how to use it. The co-partnership therefore should go on as far as possible unaffected by this event, and such transfers of holdings as have to be effected should be preferably to the co-partners.

It is impossible to take this matter further without reflecting upon the second and third objects of the system we are building up. These are :

(1) Sustenance for everyone *and their dependants*, when unable to work.

(2) Adequate pensions for everyone *and their dependants*, when too old to work.

I have added '*and their dependants*'. The rightness of this has been acknowledged for (1) by the granting of children's allowances as part of unemployment pay, and for (2) by widows' pensions with allowances for children, and by rights of inheritance.

Suppose now that widows' pensions and children's allowances were to be in proportion to the status and earnings of a pensioner or would-be pensioner after he died. What then? There would be no longer any necessity for individuals to scrap and scrape all their lives to provide for the unknown and unpredictable requirements of their old age and of their dependants who survived them. Moreover, when this is coupled with the honouring of the right to work of everyone, children are fully provided for. It is clear, however, that widows' pensions and children's allowances of this order should be set off against death duties. And also that the social problems raised by rights of inheritance should be viewed against this background. Industry, however, should not be affected by these considerations. If, therefore, in any given year the payment of death duties calls for a sale of the capital of any concern, it should be possible for the remainder of the co-partners to take this over at its actual worth to them, each in proportion to his services to the undertaking. This will be possible only if these charges are



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spread over the whole of industry by annual proportionate contributions to a common fund. The indications are that this could be thus resolved into a fixed annual charge to be included in the basic prices of all commodities.

There is nothing in this system of conduct to prevent any members of the community (including those in the secondary circulation) from participating in the setting up of new businesses and industries. All that this procedure does is to ensure that once a business has been set up in the production of any commodity its continuance is secured to the community and to those who labour in it, and if they prefer to spend the proportion of their earnings we have called the capital factor in basic price, they may do so by disposing of their capital holdings to anyone they can find to purchase them.

This form of public ownership of the means of production leaves each workman and administrator responsible for the means of production entrusted to him (which indeed he is), whereas under a collective form of public ownership this responsibility would be a collective one. Unfortunately, human beings are so made that what is the responsibility of everyone very quickly becomes the responsibility of no one. This system of conduct thus aims at the development of habits of industry, frugality and discretion in every individual. It is therefore morally as well as economically sound. For, when all has been said and done, human beings are *human* beings, and there is no gain in civilisation by relieving any one of them of the responsibility of being just that.

The next step is clearly to consider property more fully from this standpoint together with the phenomenon commonly referred to as rent.

### 8. *The theory of economic rent*

It is customary to expound the theory of economic rent substantially as follows.<sup>1</sup> Imagine the arrival of the first Adam upon an island. He will choose the most fertile and favourably situated

<sup>1</sup> This paragraph is based upon the first of the Fabian Essays written by Bernard Shaw and which opens with the statement that 'All economic analyses begin with the cultivation of the earth'. It will be observed that in this analysis we are not following this time-honoured procedure. We are considering the public economy of an industrial civilisation as a whole in which agriculture is given its rightful and natural place.



patch of land he can find and set up a stockade around it. When other Adams arrive, they will tend to take for themselves patches of land in the immediate vicinity of his stockade, partly because he has chosen well, partly for the pleasure of his society, and partly because a two-man power can on occasion be worth more than double a one-man power . . . In time only second-quality land will be available to newcomers and then third, fourth and fifth quality, and so on. Labour will also become more and more divided up. A market will then be established for the exchange of products, and this would be arranged in the centre of cultivation; again favouring the first Adam and increasing the disadvantages under which newcomers have to labour.

If we assume that Adam and the last newcomer are equally industrious and equally skilled in husbandry, and that the relative worth of the produce of the two pieces of land is £1,000 and £500 per annum respectively, Adam will be at an advantage which can be represented by £500 per annum. This sum has been called the economic rent of the more fertile and favourably situated land.

It matters not at all that it is merely a difference of income and not an overt payment from a tenant to a landlord. The two men labour equally; and yet one gets £500 a year more than the other through the superior fertility of his land and its convenient situation. The excess due to that fertility is rent; and before long we shall find it recognised as such and paid in the fashion with which we are familiar. For why should not Adam let his patch to a newcomer at a rent of £500 a year? Since the produce will be £1,000, the newcomer will have £500 left for himself, or as much as he could obtain by cultivating a patch of his own at the margin; and it is pleasanter, besides, to be in the centre of society than on the outskirts of it. The newcomer will himself propose the arrangement; and Adam may retire as an idle landlord with a perpetual annual pension of £500 rent. The excess of fertility in Adam's land is thenceforth recognised as rent and paid, as it is today, regularly, by a worker to a drone. John Stuart Mill thus wrote that 'the rent of land consists of the excess of its return above the return of the worst land in cultivation'.

Continuing the example: Adam retires from productive industry with an income of £500 per annum, and his neighbours then adopt the same procedure as new tenants present themselves . . .



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and . . . this goes on until all the land has been taken up. If, in these circumstances, it is found that the annual yield of the least fertile land upon the island is worth £100, then the possible rent for Adam's original patch becomes £900, as this is the excess of its produce over the produce to be obtained by a year's labour on the land now to be obtained rent free. But Adam has yielded up his land for £500 a year to a tenant. It is this tenant accordingly who now lets Adam's patch for £900 a year to the newcomer, who of course loses nothing by the bargain, since it leaves him the £100 a year with which he must be content anyhow. Accordingly he labours on Adam's land; raises £1,000 a year from it; keeps £100 and pays £900 to Adam's tenant, who pays £500 to Adam, keeping £400 for himself, and thus also becoming an idle gentleman, though with a somewhat smaller income than the man of older family. It has, in fact, come to this, that the private property in Adam's land is divided between three men, the first doing none of the work and getting half the produce; the second doing none of the work and getting two-fifths of the produce; and the third doing all the work and getting only one-tenth of the produce. Incidentally, there will be also a moralist somewhere around who is sure to be prating about 'private property' leading to the encouragement of industry, the establishment of a healthy incentive and the distribution of wealth according to exertion, as though this applied to an idle landlord class. It is, of course, true that if wealth arises from *the effectual use* of the good things we possess, that private property rightly understood does lead to the encouragement of industry, the establishment of healthy incentive and the distribution of wealth according to exertion. But it is only the man who does the actual work who can be truly said to be obeying this natural law.

The definition of true private property derived from Ruskin is the good things a man has honestly obtained which he *can skilfully use*.<sup>1</sup> It is not a skilful use of land to allow someone else to labour upon it, then to take from him part of the produce so

<sup>1</sup> I am indebted to Bernard Shaw for drawing my attention to the fact that Ruskin left out of his analysis the 'phenomenon of economic rent'. There is, however, no reason to suppose that Ruskin did not see its precise significance, for if his definition of property be accepted and applied, the problems postulated by the theory of economic rent cannot occur. In fact, the theory of economic rent is simply an explanation of how certain unmoral aspects of our present public economy have come about, and are being perpetuated.



obtained. This is simply the exploitation of the labour of one man by another; a thoroughly unsocial act for which there is no moral justification. It also reduces the national output and the national income by an amount equivalent to the potential productivity of the labour of the retired landlord and so lowers the standard of living of the whole community.

Moreover, this example is not a true picture of present conditions, as it is only true to say that men will work the poorest land which is available rent free when there is no other worthwhile employment. When there is no unemployment, and there is a world economy in food production (this is what we have got to in a rough sort of way), and true free trade, only the most fertile land will be worked within the limits imposed by the cost of the transport and distribution of the produce. Hence, in practice, the rent of land is no longer 'the excess of its return above the return of the worst land in cultivation', but the difference between the sum obtained for the produce of a piece of land and the wages paid to the workers (including the farmers) who have laboured upon it. Hence, as the wages of these agricultural workers are raised above the subsistence level to obtain a standard of living in the country equivalent to that in the towns, rents must fall, or a higher price must be paid for the produce.

In practice, the higher price cannot be obtained in open competition in a world market, and so subsidies have to be resorted to if the land is to be worked at all. Another factor here is the improved methods in agriculture which have arisen from research, and which make it possible greatly to increase the fertility of relatively poor land. When the poorest land can be worked up to have a yield equivalent to the most fertile land (not necessarily with the same crops), what is to become of 'economic rent'. Actually, land has been bought and sold so often that the rent of great tracts of it are based upon the sums actually paid for it.

With a world economy in food production, more scientific methods in agriculture and the existence of vast areas of land of first-class fertility with no idle class of landlords to sustain, the economic rent of land of equivalent yield in countries which support such a class, is reduced to become equivalent to the cost of transport if the standard of living of the agricultural workers is equivalent in each country. In other words, the theory of economic rent



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set out above is only applicable in a very general sort of way to the problems under view. Moreover, the nationalisation of land in one great food-producing country leads inevitably to the nationalisation of land in every other country which participates in a world economy in food production, or in which the labouring classes refuse to accept a low standard of living in order to support an idle landlord class. If, on the other hand, this section of society bestirs itself in time, and once more takes upon itself the management of agriculture, it can become a part of the managing class of a modern industrial community. Unearned income will then go, and *earned* income will take its place.

We are thus moving quickly to conditions where the holding of cultivatable land will be contingent upon its being worked by the holder, and not put out to rent. Not because men will deliberately take away the so-called economic rent upon which this class has lived, but because a world economy in food production is destroying the basis which made this rent possible. The alternative is to maintain a class of agricultural workers with a lower standard of living than the industrial section of the community; a procedure which the second world war has made impossible for the future.

It should be observed also that the acceptance of the definition of property as 'all the good things a man has honestly obtained and can skilfully use' does not interfere in any way with the Nuffields or Fords of industrial enterprise, nor does it interfere with the continuance of estates where agriculture is planned and developed by the holder to the point where the workers upon the estate have nothing to gain by transferring their labour elsewhere.<sup>1</sup> You can therefore have the best of the ancient order<sup>2</sup> and the best of the modern industrial order continuing side by side. What you can't have in true civilisation is idle men and the exploitation of the labour of one man by another.

It has often been said that the fundamental basis of rent is the fact that 'men will seek to gratify their desires with the least exertion'.<sup>3</sup> That men do so is undeniable, and it is clear that improvements and inventions of all kinds are fostered by this desire.

<sup>1</sup> The aim is to provide full facilities for the development of individuals, and there will no doubt be many who will be satisfied to continue in a tradition of this order.

<sup>2</sup> The 'golden age' of agriculture.

<sup>3</sup> See, for example, *Progress and Poverty* by Henry George, Book III, Chap. II.



Laziness is indeed the father of invention, but inventions do not spring from the wish to do no work at all, but from an earnest desire to do it more effectively and with greater freedom or lightness of labour.<sup>1</sup> The reward a man may receive for the service he renders to a community by inventing improved means of production must not be therefore confused with economic rent. An inventor *adds something* which did not exist before to the permanent capital of the people. Hence, any attempt to elevate this trait in man to the status of the principle underlying economic rent, needs to be qualified by the observation that economic rent results from a wholly barbarous application of it, for when rightly used it is wholly beneficent in its effects.

## 9. *The principle of basic rent*

Rent is also paid for the use of property other than land, and until the Rent and Interest on Mortgages Restriction Act, 1914, these rents were fixed at as high a rate as could be cozened out of the users. But this and subsequent Acts have laid the foundations for establishing basic rents, comparable with basic prices for commodities previously discussed, which would eliminate the exploitation of workers by rent. A basic rent would be fixed upon the *actual initial* costs of building or making the article to be rented<sup>2</sup> and would include provision for maintenance and renewals, and for capital remuneration at a rate less than for industrial enterprise, as the risks are relatively less. Incidentally, if the principle of basic rent were properly established, and then applied in the first instance to new houses and buildings in the post-war reconstruction period, we should have taken the first step to eliminate speculative jerry-building.<sup>3</sup>

But, you may hasten to add, what about the sum paid for the land upon which the property is built. It is obvious that *this sum* should be included, but as building land is not subject to the same standards of depreciation as property or industrial capital, it should be included as a distinct item, and the allowances for repairs and

<sup>1</sup> I have considerable experience of this.

<sup>2</sup> No accumulation of legal or other charges arising in the secondary circulation should have any significance here.

<sup>3</sup> We are seeking economic security for everyone, but not for the jerry-builder as a jerry-builder, nor yet for any other of his kind.



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renewals in the basic rent then fixed upon the actual cost of the building itself, thus removing a possible opportunity for fraud. A further point which arises here is that when the rentier neglects his property, that is, when he does not maintain it at its original worth but retains or expends upon himself that part of the basic rent provided for this purpose, the rent should fall proportionately, for a man cannot both have his property and eat it, any more than a man may have his capital and eat it. It is therefore right that the basic rent for a given property should be contingent upon its proper maintenance, and that when local taxation is levied upon property of this kind, as it is at present, the assessment like the rent should vary with the state of the property. What is wrong here is that rates should be levied upon houses, buildings and plant at all, as this procedure operates as a brake upon the provision of better houses and prevents the house-proud from continuously improving their property to the advantage not only of themselves, but of the community also. But, before we can consider this point further, we must obtain a bird's-eye-view of the 'land problem' as a whole.

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21. 10. 1958  
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4/10/58



## CHAPTER XI

# THE LAND PROBLEM

### 1. *The rehabilitation of British agriculture*

THE need for the rehabilitation of British agriculture as an integral part of our industrial civilisation is sufficiently obvious not to require discussion here,<sup>1</sup> and in this inquiry we have taken the following preliminary steps towards tackling the problem of how this is to be effected.

(1) We have recognised the fact that the growth of a world economy in food production, coupled with the abolition of an idle landlord class in the agricultural economies of grain-exporting countries, has created a position in which the rent of agricultural land may be regarded as the difference between the sum obtained for the produce of a piece of land during a given period, and the wages and other payments made to those who have laboured upon it in the same period.

(2) We have recognised the fact that capital or property of any kind should be subjected to the same conditions of sale as eggs, beef and milk. We insist upon the grading of eggs and a national

<sup>1</sup> The decline in British agriculture began in 1875 and was the inevitable result of free trade in corn. The position towards the end of Victoria's reign has been epitomised by Ernle, the historian of English farming, thus:—

‘The legislature was powerless to provide any substantial help. Food was, so to speak, the currency in which foreign nations paid for English manufactured goods, and its cheapness was an undoubted blessing to the wage-earning community. Thrown on their own resources, agriculturists fought the unequal contest with courage and tenacity. But as time went on, the stress told more and more heavily. Manufacturing populations seemed to seek food-markets everywhere except at home. Enterprise gradually weakened; landlords lost their ability to help, farmers their recuperative power. Prolonged depression checked costly improvements. Drainage was practically discontinued. Both owners and occupiers were engaged in the task of making both ends meet on vanishing incomes. Land deteriorated in condition; less labour was employed; less stock was kept; bills for cake and fertilizers were reduced.’

At the end of the century the corn area in England and Wales had shrunk from eight million acres in 1871 to under six million. Permanent pasture had been greatly increased, but the fall in cattle and sheep prices kept pace with the fall in the price of corn owing to the introduction of frozen meat from Australia, New Zealand, and South America. (For an excellent outline of this decline see *English Social History* by G. M. Trevelyan.) Reflecting on this it is clear that as the grain-exporting countries become industrialised, there must be a reversion of this process, if we are to maintain a balanced economy.



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mark for beef in order that the customer shall know what he is paying for. Machinery and countless other things are sold to standard specifications for the same reason. Property in building and houses should be therefore sold with the original costs available to the purchaser together with particulars of the steps which have been taken to maintain its original worth.

(3) We have established the fact that the observation of the principle of basic prices for all commodities is integral in civilisation, and to this end we have devised a procedure for the fixing of 'the four minima' upon which they are based in each branch of industry, and also a price-fixing procedure designed to secure basic prices for farm produce and other perishable commodities.

The next step is to decide how the discrepancies in wages rates between the agricultural workers and the industrial workers in the towns are to be corrected.

### *2. The correction of anomalies in wages levels between different branches of industry*

The determination of the four minima in any industry must take account of the present anomalies in wages rates between different branches of industry if like minima are to be secured for like productivity or like services. For example, it has long been the considered opinion of the general public that the standard of living of miners and agricultural labourers is low relative to comparable standards in other branches of industry (1941). But British industry has been built upon cheap fuel and a cheap loaf, and a satisfactory method has not hitherto been worked out by which this might be corrected. Assuming that these industries are prepared to make the necessary changes subject to the increases being included in the basic prices of the commodities produced, we have still to face the fact that when wages are increased in a factory or upon a farm, the employer has to find additional capital before he can pay them. That is to say, he has to provide the extra amount of currency required to distribute the goods produced at the higher prices which are to be paid for them. It is true that the additional costs are passed on in due course as an increase in the prices of the commodities produced, but, in the meantime, wages have to be paid and the money has to be found for this. The problem is how



to do this without imposing a hardship upon the employers and without increasing the false accumulations of capital which have resulted from the procedure which has been previously followed.

Let us examine this matter more closely. If the wage levels are raised in one branch of industry and the levels of wages are held the same in all the rest, a corresponding increase will be required in the fiduciary issue or we shall be simply robbing Peter to pay Paul. Suppose now that the fiduciary issue is divisible into 99 equal parts with 4 parts taken up by coal, and that the advances required by wages in the coal industry involves an increase in the fiduciary issue by the equivalent of 1 part, thus making 100 in all. What will happen? The coal industry will then receive claims to  $5/100$ ths of the total worth of the goods produced by the whole community in place of the  $4/99$ ths previously allotted to it. This would effect the more equitable distribution of commodities we are trying to bring about.

This procedure reduces the problem of how to increase the fiduciary issue without at the same time capitalising it or giving a so-called further advantage to the employers. This could be done by the government printing the requisite number of notes and then crediting them to the industry concerned through the banks. It would not be a difficult matter to ascertain the amount or to effect its transfer to the requisite undertakings. The cost involved would be that of printing the notes and making them available through the banking system. This would be paid by the government, no borrowing or other form of indebtedness being incurred by anyone.

### *3. The treatment of land as private property*

We have seen that the capital of a country consists of the means of production available to it, and may be divided into three categories :

- (1) the workers ;
- (2) the land and minerals ; and
- (3) machinery, tools and tackle.

The distinction between machinery and the like and land, is that the first of these has to be invented, made and developed by



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the diversion of a proportion of the labour power of the country to this end. It is therefore right and proper that those who invent, make, develop and add to the means of production should in their lifetimes enjoy the social privilege of directing their application and use, provided always, that their conduct in this matter does not affect adversely the lives of any other member of the community. This is clearly a possession proper to them which when rightly treated confers a benefit upon the whole community. It is also a form of stewardship which is thus correctly disposed.

If, however, we insist that the holding of this form of capital is a social privilege which is contingent upon its use in the service of the community, we must also insist that precisely the same conditions shall govern the possession of every form of capital that is, of land and minerals. We have, however, become accustomed to the treatment of land as private property implicit in which is the right of the person holding it to do with it as he pleases without regard to its effect upon the community. But the land is not created by individuals as industrial means of production are, and access to some parts of it is essential to the life of everyone. It is, therefore, a possession proper only to a people as a whole, and the holding of any part of it is actually a social privilege which should carry with it the corresponding duties and responsibilities of stewardship. All the political parties are in general agreed that the land should belong to the people. The problem is how to effect its transfer back to the community in face of the tangled skein of land holdings. This will have to be done, however, if we are to achieve a rational social order, in which so-called economic rent and economic wages are abolished.

### *4. The nationalisation of the land and the rehabilitation of agriculture in the body politic*

Much land is already nationalised in the large acreage of highways, byways and commons of the country, and the remainder may be conveniently divided up into :

- (1) Agricultural land or land under cultivation.
- (2) Open land or land awaiting cultivation or conversion to townland.



- (3) Townland occupied by cities, towns, villages, hamlets and dwellings of all kinds.

The first problem is how to effect common ownership of all agricultural and open land. A large proportion of this has been acquired for cash precisely as other forms of property have been acquired. If, therefore, the ownership of the land is to be transferred to the state it must be paid for. The sum involved has been estimated to be of the order of 650 million pounds. Two world wars have shown that a financial transaction of this order can be carried out. But we must not forget that such a sum could not be readily spent upon the creation of new capital in industry, nor could it be 'unloaded' as currency into the market without destroying the goods-currency balance, and in fact the stability of the whole industrial system. Also, if the state were to treat this sum falsely as though it were capital and pay a reasonable rate of remuneration upon it, this addition to the national debt might well prove to be a trite illustration of the adage that 'it was the last straw that broke the camel's back'. We must, therefore, face the fact that this transfer, if it is to be made, must be effected without adding to the indebtedness of the agricultural community or to the national debt, and it must not disturb the stability of the industrial economy.

A further difficulty is that the rehabilitation of agriculture cannot be attained by the mere transfer of ownership of the land. This of itself will only give the state the right to say under what conditions land may be held by anyone, but it will provide an unassailable starting-point for this.

The whole problem has been summed up by Orwin in *The Future of Farming* thus: 'The crying need of the land is for fresh capital, for land drainage, for rural housing, and for all the equipment that the landlord in the golden age of farming was able and ready to supply.' We are, nevertheless, primarily concerned to transfer all agricultural and open land to public ownership. This would then be part of the pile of property held by all alike which we call public works. At the same time a proportion of the labour power of the country must be diverted for the purpose of adding to the means of production available to the agricultural community. This would be expended upon land drainage, rural housing, and the provision of modern equipment of all kinds. If then we include



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the transfer of the ownership of the land to the state as part of the programme for the creation of public works, and then effect the transfer by the non-interest bearing procedure we have evolved for the transfer of labour power to public works, we shall have placed in the hands of the present owners the sum of about 650 million pounds which must be spent upon the rehabilitation of agriculture, if the goods-currency balance is to be maintained. That is to say, the 650 million pounds would not be actually paid to landowners. It would be paid to the labour employed upon land drainage, rural housing, and to the manufacturers of the modern equipment required by the farming community if it is to be treated as an integral part of an industrial civilisation. The owners would then have in place of the land its equivalent worth in other holdings which it would be their duty to maintain as the capital of industry is maintained, and for which the farmers and others would pay to them not more than the sum they now pay as rent for the land. The farmers and others would hold the land from the government with full security of tenure, under conditions which would ensure the proper use of the land in the best interests not only of the agricultural community, but also of the nation.

Owner-occupiers would receive precisely the same treatment and the sums made available to farmers and others who have been able already to modernise their equipment and methods, could be used for main drainage schemes, and for the setting up of the public (marketing) utilities required to secure basic prices for the commodities produced by the whole agricultural community. Sums so expended would, of course, have to be remunerated at the same rate as the sums expended upon other phases of the rehabilitation process, by the agricultural community. The question thus arises whether the rehabilitation of agriculture could not be most satisfactorily achieved through public utilities created for the purpose.

### *5. Joint Agricultural Councils*

The first point to be clear upon in tackling this question is the fact that the operation of the law of economic rent has already, in theory, produced a rental for each plot of agricultural land, such, that those who labour upon it, can obtain approximately the same return for the application of equivalent amounts of labour. To



what extent this is true no-one can say, but we can be certain that conduct of this order has reduced to a more or less common level the possible earnings of those who labour upon the land to the fullest extent of which it is capable. There will be, of course, exceptions where the rent of land is excessive owing to neglect, and cases where it is below the average owing to the superior husbandry of those who labour upon it. Put in another way, rents have been fixed, directly or indirectly, upon the relative productivities of different holdings. The greater the productivity, or the better the land, the greater the rent and vice versa. In these circumstances it would be foolish to allow the expenditure of the capitalised rents upon the specific plots of land to which they normally refer, as it is the relatively poor land which is in need of the highest sum being spent upon it.

The second point is that land is a natural means of production, and so falls into the general definition of capital as means of production, whereas the capital of industry consists of means of production created by labour. The problem is therefore how to make land into a property common to all and share its natural productivity as equitably as possible among those who labour upon it.

In tackling this problem we can only assume that the operation of the so-called law of economic rent has effected a levelling out of the possible earnings of one piece of land compared with another to within reasonable limits, and that our immediate concern is therefore to preserve this state. This will be done if the expenditure of the capitalised rents is upon the requirements of agriculture taken as a whole and not upon individual holdings in proportion to the rents paid. The best way to do this would be to operate the land as a public utility with as many branches as there are districts, and with each branch administered by a Joint Agricultural Council constituted of rentiers, farmers or employees, and agricultural workers, this to be a purely voluntary organisation<sup>1</sup> concerned with the maintenance and the most effective use of the means of production entrusted to it. This would include the drainage of the land in the area under view. Rents would be paid as before, but into a common fund from which the rentiers would be paid the sums due to them, leaving the statutory amount

<sup>1</sup> There must be no additional charges imposed on agriculture by this procedure as this would raise the basic price of farm produce to the industrial community.



for maintenance, repair and renewals at the disposal of the Council to be disbursed solely for this purpose.

It would be obviously necessary to provide for main drainage schemes directly out of the 650 million pounds to be paid for the transfer of the land to the people, and this amount would reduce proportionately the sums available for the rehabilitation of the districts. Similarly the annual sum required for the maintenance of the main drainage systems would have to be contributed in proportion to the rentals paid in each district and placed at the disposal of the Joint Agricultural Councils or other bodies charged with their maintenance. Under this scheme the rentiers would have every opportunity to give their services in exchange for the rents paid to them and so justify the stewardship entrusted to them and at the same time rehabilitate themselves as workers for the welfare of the agricultural community.

The Joint Agricultural Councils<sup>1</sup> would fix the minimum wages and salaries rates and bonus scales on which the basic prices of commodities would be built up. The rents would be already fixed, but not the allowances for the maintenance and renewal of drainage systems, agricultural machinery and the like. Also, many of these rates would have to be reached by stages corresponding to the rate at which the change-over was being effected.

### *6. Public (Marketing) Utilities for agricultural produce*

The aim of this system of conduct in agricultural affairs is to obtain economic security for producers and distributors alike, with like wages for like services. The starting-point for this is the maintenance of the supply as near as possible equivalent to the demand with the levelling out of supplies from one year to another, and from one part of a season to another, first by a planned economy, and second by the use of cold storage and any other rational means which may be available for this purpose. This can be done most effectively by Public (Marketing) Utilities created specifically to do this, with representation upon the Joint Agricultural Councils for all decisions on basic rates of pay for both producers and dis-

<sup>1</sup> The fixing of wages and salaries is not something with which the rentiers are concerned and so we must visualise Joint Agricultural Councils split up into committees for the purpose of dealing with specific items.



tributors. The second equally important function of these bodies would be to collect the produce, or, alternatively, to pay the basic price for it loaded into appropriate trucks or wagons at the places where it is grown. That is, the cost of delivery to the Public (Marketing) Utilities should be levelled out as between one producer and another so that every producer is for all practical purposes precisely the same distance from the market. This would enable markets to be arranged in the most convenient places, and leave these utilities free to choose them. It would also abolish a further contributory factor in the theory of economic rent.

## *7. Agricultural banks*

In addition to the transfer of the land to the state and the financing of land drainage, rural housing, and agricultural equipment schemes effected through the Joint Agricultural Councils, there is also the problem of providing the currency required to distribute the commodities produced at their basic prices without falsely capitalising these sums. Wages are paid weekly, but the turnover may occur over a season of several months. This factor must inevitably play a very great part in the restoration of the prosperity of the agricultural community, and it must be a first charge upon credit facilities. The training of specialists to handle the currency phase of agricultural banks is called for by these developments. They may of course operate through specific branches of the main banks, but only if the present rule-book procedure gives place to one based upon moral and social, instead of principally upon monetary considerations.

## *8. The maintenance of basic price levels for home-grown agricultural produce against imported produce*

This important factor cannot be dealt with until we have considered the export and import trades.

## *9. Townlands*

We have shown how the operation of the so-called law of economic rent in connection with agricultural land can be abolished.



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We must therefore find out how to abolish its operation in connection with townland. This problem is, however, complicated by the increased worth in exchange which occurs when agricultural or open land is sold for use as townland and built upon.

The first point to be clear upon here is that this increased worth in exchange is not due in any way to anything for which the holder of the land is normally in any way responsible. It arises directly from collective social improvements. These include the making of roads, the provision of water, gas and electricity supplies, transport facilities, and so on. And new currency cannot be drawn against the sums involved. They add nothing to the national income and are simply transfers of purchasing power in the secondary circulation of the currency. The second point is that if these increases were not allowed to occur the 'rateable value' of property in the centre of a town would be substantially the same as for equivalent property on the outskirts, and we would be faced with a similar problem to that which arises from the different productivities of agricultural lands. In short, the appreciation in the worth of townlands presents a rational procedure for the allocation of local taxation over a given community, which in a rough sort of way, adjusts the incidence of these charges in accordance with the contribution made by the community as a whole to the amenities of each district. This procedure however also results in the false capitalisation of the increased worth of townlands and thus produces a third great source of the totally unjustifiable and wholly false capital accumulations which characterise capitalism.

In considering these points it is necessary to be clear on the fact that the appreciation of the worth in exchange of townlands is used merely to change the incidence of local taxation among the members of a given community. No goods are produced by it, no new currency can be drawn against it, and so the national income remains unaffected. But some members of the community 'make a profit' at the expense of the rest, and this sum is falsely capitalised and turned indirectly into a permanent annual charge upon the total output of real goods in the locality concerned. This raises the question whether townlands should be nationalised also.

Land which is built upon cannot at the same time be used to add to the productivity or welfare of a people. There can be therefore



no gain to the community by the purchase of this land by the state provided the holding of it is not allowed to interfere with the progress of public works or obstruct town planning. The national planning of public works thus requires the treatment of this form of property as holdings of land and not as ownings of it.<sup>1</sup> This would put the state in a position to terminate any holding which was against the public interests by payment of the sum for which the holding was originally acquired, say, before 1939, plus an appropriate advance on this price when bona-fide liabilities have since been incurred, plus compensation, if hardships should be thereby created. Or, in the case of land which has been built upon, a sum based upon the rent which is being paid for the use of it. Local authorities would of course have to show that such a step was in the public interest when making application to the appropriate Department. Also, in some cases compensation by land rather than purchase price may have to be allowed in order to ensure fair treatment to the holder.

On the other hand, since the most satisfactory method for the determination of the worth in exchange of a given piece of town-land is to allow would-be holders to bid for it in the open market, the only practical way to eliminate the social evils which arise from this procedure, at present, is to allow the sale of land on these terms, and then for the state to place a tax on the sum received such that the seller receives only reasonable remuneration for his services. There is nothing new in this idea except the way it has been arrived at, for the Uthwatt Report on Compensation and Betterment<sup>2</sup> (1942) proposes the imposition of a levy of 75 per cent of future increases on the annual 'site value' of land.

#### 10. *Local taxation and the rating of townlands*

It is customary to levy local taxation upon both the land and the buildings placed upon it. This militates against the welfare of the community in that if a landlord neglects his property and it falls into disrepair, the rates levied upon it are reduced. Whereas, if he improves the amenities of his property the rates are pro-

<sup>1</sup> I have a firm impression that legally this is what it really is.

<sup>2</sup> Payment of compensation and recovery of betterment in respect of public control in the use of land.



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portionately increased. On the other hand, it is both morally and technically correct to raise or lower the basic rent of any property with changes in its state. This confusion of principles can be eliminated by levying rates solely upon the land upon which the property is built. They would then remain independent of the state of the property built upon it and there would be every encouragement to everyone to build only the most satisfactory dwellings and to keep them in a reasonable state of repair. It is a sad commentary upon our present procedure, that a man may add to his possessions in a thousand and one ways without being called upon to increase his contribution to local taxation. He may withhold currency from circulation and create its equivalent in unemployment and be looked up to and admired for his so-called 'thrift'.<sup>1</sup> But a man who prefers to spend some of his earnings upon thriftily<sup>2</sup> improving his residence, has a permanent increase in his local taxes imposed upon him for his pains. This procedure has been condemned for many years by the Henry George School of Social Science through The English League for the Taxation of Land Values.

Let us go more deeply into this. Under the system at present in operation in England the burden of local taxation falls upon the occupiers of property which cannot be moved. The amount to be paid by each occupier is based upon the annual reasonable rent which could be obtained for the property in its existing condition. If there is no occupier, no rates are payable. If the property is improved and is then worth a higher rental, the assessment is increased proportionately, and vice versa. With local taxation based upon 'land values', the rates would be independent of the buildings and houses erected upon it, and the person having the use of the land would pay them. It has been suggested, however, that taxation should be levied upon the holder of the land itself, so that rates would have to be paid whether it was in use or not. It is claimed that this procedure is necessary to abolish the withholding of land from its proper use in order to obtain a higher price for its

<sup>1</sup> In the ancient and original sense of the word such practices are thriftless.

<sup>2</sup> The Oxford English Dictionary gives for this: 'In a becoming or seemly manner, properly, worthily, handsomely, finely, hence thoroughly, soundly, well'; and, incidentally states that the use of the word in this sense is obsolete. One might therefore say that it is the main object of this system of conduct to create a truly thrifty race; that is, one which goes about its affairs thriftily; and so restore this word to its rightful place in the English language.



transfer, or a higher rent for the use of it. The ultimate result of this procedure, however, would be to make it impossible for anyone to hold land which was not being used.

The holding of agricultural land when it has been transferred to the state will be clearly contingent upon its being cultivated. It would be only right, therefore, that townlands which are not being used should similarly revert to the state. But before this can be done townlands not in use would have to be transferred back to the state by a similar procedure to that used with agricultural and open land. This would be justified, however, only if this would confer a benefit upon the community as a whole. Would it?

We know that the object of taxation is to effect the transfer of a proportion of the effective purchasing power of a community, i.e. of claims to new goods as they are produced, to those who labour either directly or indirectly to secure the welfare of the community as a whole. But, a person holding land does not add to the national output of goods by merely holding it; he may, however, prevent someone else from doing so. The issue, therefore, is one of whether these holdings of townlands can in any circumstances reduce the national output. When unemployment is abolished by the methods we have already discussed, the owning of townlands cannot affect directly the total output of goods by a community, it can only obstruct town and country planning. And, when the ownings of townland are treated as what they really are, namely conditional holdings, the local planning authority will be able through the appropriate Department to effect the termination of them when it is in the interest of the community to do so. Another point here is that when local taxation is based upon 'site values', each rating authority will build up 'land-value' maps from which any private person or firm will be able to see at once what a particular site is worth. This factor will operate to ease the transfer of holdings at these limits, but there will still remain the problem presented by stupid persons who will hang on to a site for the sole purpose of showing someone else they *can* hang on to it. There must, therefore, be a procedure of appeal to the appropriate Department by private persons for the transfer of such sites, when it can be shown that such a transfer would indirectly confer a benefit upon the community concerned. If



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this procedure is adopted, there is obviously no necessity to nationalise townland.

It may be helpful at this stage to review briefly how the present procedure in rating has come about. The general system of rating has its origin in the Act of 1601 for the relief of the poor. This created 'Overseers of the Poor' and authorised them to raise money by local taxation according to the ability of the inhabitants of each parish. Movable property could be rated but attempts to do so were unsuccessful, and the Poor Rate Exemption Act, 1840, abolished this procedure. The basing of assessments on the annual rentals of fixed property, was given statutory authority by the Parochial Assessments Act, 1836. There have been many other changes since. In 1896, agricultural land was given exemption from one-half of the poor rate, and the deficit was made up to the rural authorities by government grant. This was increased to three-quarters in 1923, and the de-rating legislation of 1928-29 exempted agricultural land and buildings (but not farm dwelling houses) entirely from rates. Certain machinery and fixed plant were exempted from assessment in 1925, and industrial hereditaments and freight transport hereditaments from three-quarters of the rate in 1928-29.

The question of land-value rating was first considered by the London County Council in 1889 and it has since been the subject of numerous governmental recommendations and of demands by local authorities for the necessary powers to use this method. The London County Council in particular has been very persistent in its efforts in recent years to obtain the necessary statutory authority to apply this procedure. The soundness of land-value rating has been proved over many years in Denmark, New Zealand, Australia, and in many other parts of the British Dominions and Colonies, and of the world. Its introduction in this country would be a logical development of present tendencies with agricultural land treated as equivalent to the means of production of industry. But whether it would be necessary for the government to continue to subsidise the rating of rural districts under the conditions which would be created by the full-scale rehabilitation of agriculture is an open question.



## 11. *The raising of the standard of the social amenities enjoyed by the agricultural community*

The transfer of the land to the people and the rehabilitation of agriculture, including the treatment of agricultural land as the equivalent of the means of production of industry and the building of adequate rural housing estates, would obviously raise the standard of living of the agricultural community. And, provided the Public (Marketing) Utilities were rightly operated to secure the basic prices for the commodities produced, the wages levels would be adequate to sustain it at that obtained for equivalent services in the towns. We have, however, still to visualise a procedure which will secure to this section of the community, equivalent water, gas, electricity, transport and health services. And, by equivalent we mean in cost as well as in life giving and in labour or life saving.

The difficulty in the supply of water, gas and electricity is the increased cost of distribution per consumer, owing to the lower density of the population in country places compared with the towns. This may be overcome in two ways. These are :

- (1) By spreading the extra costs incurred over all the consumers in a particular area (including towns and villages). This amounts to the townsfolk subsidising country folk to some extent.
- (2) By including in the plans for the rehabilitation of agriculture the distributory systems for water, gas and electricity. Bulk supplies then being purchased from the nearest centre at a cost comparable with town supplies.

The second is clearly the right way to do this, and in working out the many practical problems which will inevitably arise in the application of this principle we must not forget that when the prices of water, gas, and of electricity are higher in the country than in the towns, either the standard of living in the country must be proportionately lower or the extra cost must be included in the basic price of the produce sold in the towns.

Better housing conditions are clearly the way to better health. Nursery schools and clinics are required in the country as well as in the towns, but large-scale amenities like hospitals will clearly have to be arranged communistically with the nearest town or city.



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The countryside, taken as a whole, does not appear to be badly serviced with transport facilities, which do actually spread the incidence of the cost involved over wide areas. These are matters, however, which require more detailed consideration, but it is sufficient in this inquiry to be clear where they fit into the public economy under view.

### 12. *Death duties and the capital of the agricultural community*

When the agricultural and open land has been transferred to the state, the capital (means of production) of the agricultural community should clearly be treated in precisely the same way as the capital of industry.

### 13. *The Land Registry*

The transfer of agricultural and open land from private ownership to the state will involve the cancellation of the existing titles and the registration of these acts. Fortunately, the requisite institution already exists which will enable this to be done in the simplest possible way. This is the Land Registry. There is also a Land Valuation Department for the determination of the 'net annual value' of lands for income tax purposes which can provide the data on which transfers can be made.

The use of the Land Registry legally to record transactions relating to land, houses and buildings, is at present a matter for personal and local option. The time is ripe, however, in more senses than one, for its compulsory application to the whole country, for apart from the vital part it could play in the nationalisation of the land it could greatly reduce the legal charges which weigh so heavily and unfairly upon workers who purchase their own homes.

The Land Registry thus extended could then supply the following vital statistics :

- (1) The total expenditure on new houses and buildings, etc., with the legal charges involved.
- (2) The total expenditure on secondary transfers of houses, buildings and land, with the legal charges involved.
- (3) The total annual sum expended upon private mortgages, which is thus transferred to the secondary circulation.



14. *On Minerals*

The second order of capital consists of land and minerals. We have dealt with the land, and the principal mineral in Great Britain is coal which belongs to the State. It is, however, essential fully to appreciate the importance of this source of heat, light and power in an industrial civilisation.

The industrial supremacy which Great Britain enjoyed towards the latter part of the nineteenth century can be traced to the re-discovery and revival of the art of smelting iron with coal by the Abraham Darbys, father and son. This occurred in the years 1730 to 1735. The population was then about six millions, and was maintained principally by traffic in wool and corn. A century later the population had increased to 14 millions, the industrial revolution was well advanced and the livelihood of the people was becoming more and more dependent upon coal, iron, textiles, shipping and engineering.

The need to pump water from the coal mines was the chief incentive in the development of the steam engine, and steam power greatly increased the commercial prospects of coal mining. The new industrial life and enterprise to which these advances gave rise directed attention to the deplorably backward state of internal communications. The first canal was cut in 1755 to convey coal from St. Helens to the Mersey, and by the year 1810 over 2,000 miles of canals had been cut at a cost of over 50 million pounds.

It was the need to cheapen the cost of hauling coal from the pits near Sheldon to the wharves on the Tees at Stockton which led to the construction of the first public railway in 1825, and the rapid extension of railways and steam locomotives which then followed was mainly due to the traffic and wealth occasioned by the use of coal in manufacture. So much so that George Stephenson used to say 'the Lord Chancellor now sits upon a bag of wool . . . which has long ceased to be the emblem of the staple commodity of England. He ought to sit upon a bag of coal'.<sup>1</sup> Similarly, the supremacy of the British merchantile marine from 1850 was due to an ever-increasing export trade in coal, whilst the extraordinary superiority in shipbuilding which had been established within the United Kingdom was to be ascribed to cheap coal and iron com-

<sup>1</sup> Smiles' *Lives of Engineers*, Volume III, p. 357.



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bined with a favourable geographical position, climatic conditions, and free imports. Thus in 1865, Stanley Jevons wrote 'Coal in truth stands not beside, but entirely above, all other commodities. It is the material source of the energy of the country, the universal aid, the factor in everything we do. With coal almost any feat is possible or easy; without it we are thrown back to the laborious poverty of early times'.

We are today, in 1947, learning the practical significance of this fact the hard way, i.e., by 'bitter experience'.

### 15. *Summary*

The transfer of agricultural and open land to become a branch of public works, with the transfer financed as public works, would give to the present landlords equivalent capital and property in agriculture for the maintenance of which they would in future be responsible. The basic net rents would be fixed and should not exceed those at present charged for the use of the land.<sup>1</sup> The occupiers would be thus provided with modern equipment and given the means to raise the standard of production to that required to provide a standard of living for agricultural workers comparable with that of industrial workers in the towns. Security of tenure would be given to present occupiers subject to the requisite training being undertaken (if this should be necessary) to make full use of the new facilities and to use the land entrusted to them.

Joint Agricultural Councils would be required to control the agricultural plant and equipment so provided, or their equivalent, and the two minima and the corresponding bonus scales upon which the basic prices of produce would primarily depend, would have to be fixed. The basic rates however, would be tied in with output by the use of model farms using agreed standards of equipment and of staffing.

It would be necessary also to set up Public (Marketing) Utilities to act in conjunction with the Joint Agricultural Councils for the purpose of securing and maintaining the basic prices for agricultural produce, with a fair and agreed return to distributors. These bodies would be concerned to spread the supply to meet the demand

<sup>1</sup> The gross rent would include provision for the maintenance and repair of 'agricultural plant and equipment'.



by local planning and the development of extensive and appropriate storage and other facilities.

The supply of currency to effect the distribution of the commodities produced would be effected through specialist agricultural banks operating in conjunction with the Joint Agricultural Councils and the Public (Marketing) Utilities, all of which would fall, for the purpose of government, under the jurisdiction of the Ministry of Agriculture and Fisheries.

Subsidiary industries for the supply of fertilisers, feeding stuffs, machinery and the like would be required to operate upon comparable basic price scales which would be fixed in the same manner as for other branches of industry. Agriculture would be thus re-established in its rightful place in the body politic.

Townlands would be holdings like agricultural land, not ownings, but there is no need to transfer these lands to the state in order to secure a socially equitable handling of them. In these circumstances the state would have the power to terminate a holding if it was in the public interest to do so, for both town and country planning. The placing of a tax on increases in 'site values' due to communal enterprise would prevent the accumulation of false capital due to this, and at the same time allow reasonable remuneration to the holders of these sites for their services in establishing 'site values' for the purpose of local taxation.

Local taxation would be based upon the land only,<sup>1</sup> and not on any account upon buildings and plant, thus placing property of this kind on precisely the same footing as all other property.

<sup>1</sup> Based upon, that is chargeable only when the property built upon it was in use as at present.

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## CHAPTER XII

# STATE INSURANCE

### 1. *What this public economy would abolish*

THE scientific or operational approach which we have adopted in this inquiry has yielded a system of conduct or political economy which would make impossible the following major social evils :

- (1) Interference with the goods-currency balance by governments, bankers or speculators.
- (2) The control of the goods-currency balance by changes in the price of commodities instead of in the sum of money in circulation, but without controls as we know them today.
- (3) Unemployment.
- (4) Insecurity of savings.
- (5) Insecurity of industrial enterprise due to unpredictable monetary fluctuations.
- (6) Excessive accumulations of false capital due to :
  - (a) the payment of interest on sums expended upon public works ;
  - (b) the supply of currency by industry ; and
  - (c) the appreciation in the worth of townlands due to communal improvements.
- (7) Private ownership of agricultural and open land.
- (8) Interference with the planning of public works by the private ownership of townlands.
- (9) The marketing of fish, fruit and other perishable commodities upon a basis which penalises the producers and the community in times of plenty

We have also found out how to effect and hold a balance between the demand for consumers' goods and public works so that the right to work of everyone can be duly honoured. We have, however, still to consider how provision is to be made of sustenance when unable to work, and of adequate pensions when too old to work, for everyone. In short, how to ensure that every man shall



be given the nourishment, covering, medical care and attention to keep him in a state of health from birth till death, in return for his services to the community.

## 2. *On pensions and disablement allowances*

The first order of capital of a country is its workers. This is by far the most important division of the means of production available to any country; and, when currency is based upon labour, it is at once apparent that a nation is richer or poorer in proportion to the number of workers engaged upon enterprises which add to the national output. Also, that time lost in production due to ill-health is not only a loss to the worker himself but to the factory in which he works and to the country as a whole. The goods produced, the national income and the currency being proportionately reduced.

The greatest of all assurances is therefore the honouring of the right to work together with the provision of sustenance when unable to work and an adequate pension when too old to work for everyone. The need for this arises from the division of labour, and a truly moral civilisation is not to be attained without it. It has been customary for the ruling classes in all countries to dismiss this matter as calling for a greater ingenuity in political economy than has been given to man, but it has been achieved in Russia in the relatively short period which has passed between the two world wars. It is, therefore, impossible to present a reasonable argument against its attainment in any other part of the world, except to admit that the ruling classes have not the ingenuity or the goodwill towards their fellow creatures which are necessary to bring it about.

Approaching this matter in another way, if the first order of the capital of a country is its workers, then the cost of sustenance when unable to work and of attendance in sickness and ill health, correspond to the costs incurred upon the maintenance of the fertility of the soil and upon the repair and renewal of the third order of capital or mechanical means of production. And pensions are a provision for old age which is achieved collectively in order to take away the uncertainty about the sum which will be needed, and also to avoid the social complications which arise when the sums put aside for this purpose are not spent. A wise businessman



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will therefore see in this conduct nothing more than the maintenance of the principal means of production in the state of its maximum possible efficiency, and the maintenance of the maximum possible number of active workers, each exercising his highest possible purchasing power throughout the whole of his life.

History shows that this assurance can be only obtained by social enterprise, but in case you are in doubt about the rightness of this we had better at once distinguish between state assurance and the private assurance (or insurance) of private property.

### *3. On the distinction between state and private assurance*

The major liabilities of disablement by sickness, accident or old age, and of death, are a heritage common to all, yet it has been found by experience that unless compulsion be applied, relatively few people make adequate provision against these emergencies. It has been also found by experience in this and other countries that only compulsory provision by the great majority of the population is capable of spreading these risks at a cost which can be reasonably met by the workers themselves, and that the administration of state assurance is an extremely simple matter once the relationship between contributions (sums put aside) and benefits (sums drawn) has been established. In fact it amounts to a straightforward annual charge upon the whole population which differs very little from one year to another. There are, however, other liabilities which are limited to specific individuals or groups within the community, such as those incurred by ships, motor cars, freights and plate glass windows. Losses on motor cars or plate glass windows are losses which concern the individual, but when a man is disabled so that he cannot work any more, or when a man dies before reaching old age, the state suffers a loss which, expressed in monetary terms, is precisely the same in amount as the measurable loss to his family. The state is also liable to suffer a further loss due to the same cause if his children are brought up undernourished or unskilled in a useful form of labour. The major liabilities of life are not therefore matters which belong solely to the discretion of the individual as to how he shall assure himself against them.

Another point here for the man of business is that these liabilities have to be met every year in one way or another, by insurance, by



charities, by poor law institutions, by flag days and by every other means whatsoever by which the requisite sums can be cozened indirectly out of industry. For it is only out of the industry of the people that they can be met. Moreover, when these sums fall short of the actual needs, the suffering and impoverishment which results is sooner or later represented by an equivalent reduction in the productivity of industry taken as a whole. For this is a law of the universe whether narrow-minded hard-boiled financiers or industrialists like to think so or not. The most businesslike way therefore to deal with these liabilities, is to have the state effect the collection and distribution of the necessary sums with the least possible loss of productive labour. For it should be noted that every man engaged in insurance is one man less available for productive enterprise, and that the axiom of industry which requires the production of the maximum quantity of a commodity with the expenditure of the minimum amount of labour applies equally to insurance.

4. *The provision of sustenance when unable to work and of a pension for everyone when too old to work*

There are two possible starting points for a consideration of these matters :

- (1) The provision of allowances and pensions which will guarantee to everyone freedom from want in the bare necessities of life.
- (2) The provision of allowances and pensions equivalent to actual earnings. This would guarantee freedom from want at the standard of living to which each worker is accustomed.

The first of these is the minimum provision which any government can make in effective discharge of its moral responsibility in this matter. The second is the provision which would be made in a more highly developed civilisation than we have yet attained, so that (1) is the natural starting-point, followed by a steady progression to (2) with the growth in moral stature of the community as a whole. This does not mean that the second state cannot be achieved at once by those who are able and care to exercise the necessary thrift. It simply means that it is at this stage a matter



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for private as distinct from state assurance to bridge the gap between the two. It is clear that the gap must be to some extent bridged at once if the maximum productivity of the country is to be maintained, but as there are many existing organisations which can undertake this, it is only fair at this juncture to give them the opportunity to show (if they can) how much better they can manage this than the state.<sup>1</sup>

Suppose then that the first step is to be taken. What are the principles involved? They are:

First: the scheme must cover every member of the community, for it is the duty of the state to ensure that *everyone, through work or services rendered*, is provided for from the cradle to the grave, and the state can never be morally justified in distinguishing between any of its members in this matter.

Provision for everyone means that the unit must be the family and we have therefore to provide for: wages or salary earners, housewives, spinsters (or more generally housekeepers), children and old folk of both sexes,<sup>2</sup> everything necessary to keep them in a reasonable state of health. And, this has to be attained by the transfer of the requisite proportion of the commodities produced to each of these divisions.

The distribution of commodities is effected by the use of money and the currency required for this is distributed by manufactories and distributories to those who labour in them. That is, the requisite sums are put into circulation by the payment of wages, salaries, fees and dividends.<sup>3</sup> It follows from this that a proportion of these amounts must be diverted to supply the needs of the rest. The question thus arises how much? The general answer is that provision has to be made to keep everyone in a reasonable state of health. What does this involve? It involves setting up a standard of allowances and pensions which will guarantee to any family freedom from want in the bare necessities of life. A limiting factor here is the size of family with the wage and salary earners

<sup>1</sup> It does not follow from this that all assurance of this class will be eventually undertaken by the state. The principle involved is clearly that anything affecting the whole community which can be done with less expenditure of unproductive labour by the state than by private enterprise should be done by the state.

<sup>2</sup> In a rational civilisation one cannot consider idlers. Either you are a child, a housewife, a housekeeper, a worker or a disabled or retired worker.

<sup>3</sup> Dividends present an interesting problem and are represented by the 'employers' portion' of the present contributory schemes.



deducted. The smallest family for this purpose is a man and his wife with one child. And, if this be taken as the base, then wages and salaries must be also related to it, for the minimum provision in sickness or unemployment must be obviously related to the wages paid to an unskilled labourer.

The base of the system thus becomes the wages rate of an unskilled labourer with a wife and one child. This basic rate, however, if paid, will guarantee to an unskilled labourer the same income when ill as when he is working, but not when he is unemployed, for the system under view abolishes unemployment and provides a subsistence allowance for all workers in process of transfer or training for new tasks. That is to say, the procedure conforms with the ancient doctrine 'that if a man will not work, neither shall he eat'. It is thus desirable that the wages of the lowest class of labour should exhibit a sufficient margin between the 'subsistence rate' and normal wages to keep it voluntarily engaged on suitable work. Alternatively, the 'subsistence rate' must be fixed in relation to existing wages rates to secure this.

This being done, we have to build up a system of allowances and pensions which will maintain this standard of income for every family in all circumstances, except of course to such members as refuse to labour or who when 'out-of-work' do not present themselves to be trained for other tasks. For this we have to take account of:

- (1) Sickness.
- (2) Transfer to or training for new tasks.
- (3) Disablement, including blindness and deafness.
- (4) The extraordinary expenses associated with maternity.
- (5) The number of children.
- (6) Widows who are unable to work or have a family to bring up.
- (7) Old age (men, married women and spinsters).
- (8) The extraordinary expenses of burial.

(1) We are concerned to keep every family in good health and spirits, that is, with preventive rather than curative measures, and this for the whole community. The starting-point is therefore to teach every child 'the laws of health and the conduct enjoined by them'.



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The second point which arises naturally from this is to develop child welfare clinics, crèches and nursery schools, followed by school clinics, where all children are medically and dentally examined at regular intervals. To be logical and thoroughgoing these should be followed by industrial clinics associated with groups of industrial undertakings, and by clinical services arranged to give the adult population the maximum possible freedom of choice as regards doctors, schools of medicine, hospital treatments and associated services. The granting of monopolistic powers to any interested bodies in this as in any other fields of human activity is unthinkable in an adult civilisation.<sup>1</sup> If freedom of choice was not allowed, then it would be only a matter of time before the routines would become fixed and then steadily deteriorate. It is obvious that the co-ordination of all these services is a matter for the nation as a whole, and that this must be affected by a flexible organisation of the type we have visualised for the direction of labour in industry. That is to say, we want an organisation actuated by the 'patients' demand' and not by what can be planned for them; and these services have to remember that every life lost, and every day wasted owing to sickness or ill-health is a direct loss to the community and to themselves, and not merely to the unfortunate persons who have to bear the affliction.

The maintenance of a family when the breadwinner is ill is obviously just as important as the maintenance of that same family when the breadwinner is employed, hence when the allowances in ill health are the minimum we are discussing the provision of special surgical appliances also becomes a matter for the state.

(2) It is illogical to suppose that unemployment can be completely eliminated. There will be always a number of workers in process of transfer from one factory to another, or from one industry to another, and a wise political economy will provide adequate allowances to cover the loss of wages during this period. Moreover, provision will have to be made to train workers for new tasks in much the same way as they have been trained to manufacture armaments. There will be also a body of workers unfit for work, who represent a direct loss of potential national output. Ways and

<sup>1</sup> A state medical service would be equally a monopoly in this view, for the elimination of the competitive element from any profession is invariably followed by a progressive deterioration in the service rendered.



means should be therefore found to restore them to health and to give them the requisite vigour for active labour, and in the meantime provide them with an adequate subsistence allowance.

(3) Disablement due to accident or any other cause is somewhat different. The allowances for sickness and the process of transfer or training are visualised as occurring only for relatively short periods (if at all), but disablement is for life, and so should be related, not to the basis under view, but to the wages or salary actually earned. Moreover, it would be socially unsound to allow anyone to accept a lump sum, by way of compensation. The only compensation worthwhile is the provision of an adequate weekly or monthly allowance based upon previous earnings.

(4) The extraordinary expenses associated with maternity may lower the standard of living of a household, and it is not socially desirable that this should be so. There should be therefore reasonable and adequate maternity grants.

This brings us to (5) the number of children. Clearly, if the basis of all wages and salary scales is the sum required to maintain an unskilled labourer with a wife and one child in reasonable health, there must be an allowance for each child thereafter, and this must be given whether the breadwinners are in work or not. The point here is that it is better for industry and for the nation to have wages scales based upon a family with one child and to add the allowances for other children as they are born, rather than work on a flat rate, which is bound to operate more favourably for some members of the community than for others, and against the interests of the community as a community. We must, therefore, visualise children's allowances as an integral part of the provision to be made to obtain economic security for everyone.

(6) and (7). There can be no social justification for granting pensions to young widows who are without children for a period longer than they require to adjust themselves to the changed conditions and to be trained, if necessary, to play a useful part in the working life of the people. On the other hand, the bringing up of a family is a service to the state if only in that there must be a continuous stream of fresh workers flowing into industry. In these circumstances, a pension is fully justified, as also is a pension to a wife, widow or spinster, who has reached the retiring age.

(8) The extraordinary expenses of burial, like those of maternity,



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may impose considerable hardship upon a family. There is also the fact, that when no money is available to meet these expenses, they become a charge upon the poor law. The achievement of social security for everyone should obviously make obsolete statistics relating to the poor. There can be no poor families if economic security be achieved, and clearly there must be no doubt about anyone being able to meet the costs of burial, if the poor law is to be permanently displaced.

State insurance for these matters has now reached a high level of development in Great Britain, but the collection of contributions to a central fund and the administration of this tends to be much too cumbersome and expensive in labour costs.

### *5. On house purchase and building societies*

Houses are among the goods produced by labour. Currency is drawn against the labour expended in making the materials and in designing and building them. In this respect buildings do not differ from other commodities. If I buy a house I pay for it by currency, that is out of savings withdrawn from my banking account, or indirectly from the banking account of someone else through the medium of a bank (a bank credit), a building society, an insurance company or a private individual. All these are withdrawals from savings, which reduce the total savings in the period in which the transaction is effected. If I buy an old house with currency issued against new goods which I have produced, the person who receives this from me then decides its disposition. He must either spend it on consumers' goods, buy a new house, invest it elsewhere or save it. Whatever he does it is automatically taken into account in the goods-currency balance provided it is not put away 'in an old stocking'.

Building Societies act as agents for persons with spare-money who wish to invest it in houses and buildings, and in so far as this money is used in the building of new property, their activities have the nature of industrial enterprise, and there is an addition to national output and national income in the year the actual building occurs. In the transfer of old property, however, they simply divert claims to new goods (money) from 'one pocket to another' in the secondary circulation, and add nothing directly either to the



national output or to the national income. Building Societies need the licence to trade like every other business, so that if they do not maintain a balance between the sums available to them for house building or house purchase, their credit balances must be put to work by the banks.

It is an obvious truism that it should be possible for every worker to build or purchase a dwelling for himself. It is equally important that if a worker does not feel so disposed, someone else should be allowed to provide one for him if he wishes to do so. The additional charges involved should be, however, as low as possible. That is, there should be the maximum possible flexibility in the arrangements for the transfer of house property from one person to another, and the legal and other additional charges incurred should be at a minimum. This would be helped by the compulsory use of the Land Registry in every part of the country, and the valuation of property by the Building Societies themselves without making additional charges for this service.

Joint Industrial Councils are required for Insurance Companies and for Building Societies. The four minima would be fixed by them on the same basis as in industry, with like remuneration for like services to the community.

## *6. The problems created by the division of labour*

We can now return with advantage to the four major problems created by the division of labour. These are :

- (1) How the work to be done is to be divided up.
- (2) How co-ordination in the direction of labour power is to be effected so that there is work for everyone to do.
- (3) How the goods produced are to be divided up so that the needs of different individuals can be met.
- (4) Of the goods produced how much to each.

In Chapter III, § 1, we saw that of these problems only the third was open to a direct scientific approach, and that this involved the acceptance of operational limits determined by moral considerations. This simple notion of observing moral limits to the application of scientific method in economics incidentally reconciles moral and religious views with the scientific approach to social problems, and this approach has already given us a system of conduct or political



economy which provides a practical solution to problems (1) (2) and (3). We might therefore ask whether it will not also provide a rational approach to the solution of problem (4) also; that is, of how much to each.

## 7. *The problem of how much to each*

How much to each? This question has been allowed to dominate economic thought for so long, that most people have grown to think that this is the only problem, whereas, it is technically the least important of the four major problems which have to be solved in the development of a rational civilisation. Suppose now we take this question to be the first and not the last in order of importance. How much then to each? Is it to each according to his needs or deserts, or both, or what? And, who is to decide how the question shall be answered?

If the right to work of everyone be granted but not honoured, then in civilisation the division of labour will be decided by those who control the means of production, and the proportion given to the labourers will be determined by the moral stature of these individuals and their knowledge of the principles of true economy. If these are zero, the labourers will be given, as their share, a claim to the minimum possible proportion of the commodities they produce consistent with the maintenance of effective life in them, if there are only enough labourers to go round, and less than this if labourers are too plentiful. The alternative to the acceptance of these terms by workers will be death by slow starvation whenever there is a surplus of labour power.

The struggle of labour to attain a fair share of the commodities produced has been a long and bitterly contested one, and this law of the jungle is the basis of the so-called laws of rent, of interest and of wages which have hitherto dominated our attempts at an industrial civilisation. We do not, however, have to waste any time considering or reviewing these, for immediately we have attained a political economy which will enable the right to work to be honoured, together with sustenance when unable to work and a pension when too old to work for everyone, jungle-law no longer applies. This is the most important fact which is revealed by this inquiry, and it is clearly the starting point of true civilisation.



We can put this in another way. When a proportion of the labour of a country is diverted to the creation of means of production by the enterprise of individuals, these individuals gain the power to seize for themselves (if so disposed) all the increase in production above that which a labourer can attain unaided for himself, *so long as labourers can be found to accept these terms*. And the bargain to labour for wages can be thrust even further than this in any trade, in fact to below a reasoned subsistence level, when there is widespread unemployment in that trade. On the other hand, when everyone is employed, this power tends to pass to the labourers, and if they are organised they can force a bargain in the opposite direction to the point when no one cares any more to divert some of the labour of the country to the betterment of the means of production and of the output of commodities.<sup>1</sup> This procedure would be disastrous for any such community which did not at the same time make some other provision for carrying out this vital function in civilisation, and for the systematic maintenance of the existing capital (means of production). This involves creating the equivalent of an employer class specifically charged to divert a proportion of the available labour power to this end? Broadly speaking, the division of labour would be substantially the same either way. The difference would lie in the procedure and the standard of remuneration allowed to the new 'employers'.

The forcing of either of these arrangements to the limit is not civilisation. Civilisation demands an equitable sharing out of the produce of labour to those with a claim to it. This is a matter for moral agreement between the parties concerned and will forever remain so among human kind. What is therefore required in our present state of grace is a rational approach to a solution of the problem of 'How much to each?'

<sup>1</sup> We are rapidly reaching this position today. Organised labour is pressing this matter as relentlessly as a bad employer, and insisting at the same time that wages should not be tied to output. The first effect here is that the more highly organised branches of labour have an advantage at the expense of less organised branches. The second effect is that expenditure on the maintenance of capital is cut to the bone, and is gradually cut out altogether on new capital. With increased wages *for the same output* or shorter hours and less output, the costs of maintaining plant and machinery are disbursed as wages, the currency is inflated, and fewer and fewer goods reach the markets. A vicious spiral of falling output and inflation is thus begun which is accompanied by a steady fall in the standard of living.



8. *The rational approach to the problem of how much to each*

The rational approach to this problem involves the recognition of the following facts :

- (1) That a proportion of the labour power of a country will always have to be diverted to the creation of means of production ; that is, of true capital.
- (2) That true capital has to be maintained by systematic repair and renewal.
- (3) That the diversion of the amount of labour required to discharge these functions calls for the appointment of individuals specifically to perform this task.

With private enterprise the choice of these individuals is a matter very largely for individuals themselves, and with social enterprise it can be done by election, or by a civil service procedure. Up to the present time, the greatest output of commodities has been achieved by the first, and there is a desire by many to convert it either into the second or the third of these methods. The Russian experiment however has shown that the standards of remuneration for this specific class have to be kept substantially the same relative to the wages of the unskilled labourers in social enterprise, as private enterprise. In other words, this factor must be taken into account in the sharing out of the commodities produced in any civilised community. It is, therefore, impossible for any body to be placed in power which will share out all the goods produced as wages and salaries, for there is a well defined limit to the proportion of the total output which can be shared out in this way.

Having determined the limit,<sup>1</sup> the wages, salaries, directors' fees and dividend scales for the sharing out of this amount are clearly a matter for agreement between the different classes of workers in each branch of industry. If, therefore, price-fixing rings and trusts were to be abolished and the money kept at work all the time so that there was no unemployment, with the minimum rate for unskilled labour fixed, all other rates of wages and salaries, together with directors' fees and nominal dividend rates, could be

<sup>1</sup> The limit to what is shared out in each branch of industry is fixed by the total sum received for the output of that branch, less the provision for the maintenance, renewal and extension of its means of production. And, the limit to the sums paid for these commodities is fixed by the public.



agreed in each trade or profession under conditions which would secure the necessary supply of skilled labour for different tasks, and of spare money for the extension of the means of production. Moreover, not very many generations would pass before these were satisfactorily stabilised to the satisfaction of the community as a whole. It would, however, be necessary to have a standard of due care and management for different sections of industry in order to discourage men from seeking posts for which they are not naturally fitted, simply because of the status or of the salary carried by them.<sup>1</sup> Another point here is that unskilled labour should be systematically abolished. It is criminal folly for a nation to condemn a youth to be an unskilled labourer for the whole of his life because of the untimely death of a breadwinner, or for any other reason save the lack of ability to be anything more. For the greater the number of skilled workers the higher will be the standard of living of the whole community.

Summarising: When unemployment and the liabilities caused by sickness, disablement and death are removed, the wages, salaries, fees and dividend levels in any industry will be the resultants of groups of forces whose base is the total sum received for the commodities produced over a given accounting period, with the division of this basic amount determined by moral considerations. These forces will be actuated by the wage earners, the managements, the directors and the shareholders. The return offered to shareholders would be (as at present) the minimum consistent with raising the necessary sum of spare money; and with a scientific banking system this would remain steady and could be actually governed by a bank rate. The sums allocated to the maintenance, repair and renewal of the means of production would have to be agreed by the national professional bodies concerned with the various sections in each trade. The dividing up of the balance would then give, by agreements based upon moral considerations, the wages, salaries and fees levels, and these would vary with the output.

If shareholding was wiped out there would be a charge for a central planning authority in place of fees and dividends,<sup>2</sup> and the dividing up of the balance would then be a matter for agreement

<sup>1</sup> This is the currency rate of a factory as previously defined.

<sup>2</sup> With the present procedure for the transfer of industry to the state, there would be also interest on equivalent amounts of Government stock.



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between the wage earners, the salaried officials and central planning authorities who would not be responsible for the success or otherwise of their planning in the way that the employers of today are. They would tend to take no risks whatever rather than incur the displeasure of Parliament or of public opinion in pretty much the same way as many civil servants of today.

### 9. *Evolution in civilisation and the problem of how much to each*

Taking a more scientific approach, the commodities produced by a factory can be divided up among those who contribute to the production of them in three ways :

- (1) In proportions dictated to a greater or lesser degree by one or other of the parties to the transactions involved in their distribution.
- (2) In proportions determined by rational agreement between them.
- (3) In the same proportions to each.

The first of these procedures has been followed in the development of our industrial civilisation under a dictatorship exercised by employers. This method is naturally associated with a political economy which favours the use of a closed currency. That is, a currency which is arbitrarily limited to a fixed sum. For, when this is the case, the employers are in competition with each other for the currency required to distribute the commodities they produce. A state is therefore reached, sooner or later, where some of the goods cannot be distributed because there is not enough money available for the purpose. The burning question then is whose goods are to be left over? And, as the answer to this question cannot be predicted with certainty by anyone, there is a feverish setting aside of so-called reserves against this need. A procedure which simply aggravates the position, as for every pound laid aside in this way which is not put back into use by credit, an exactly equivalent quantity of goods must be laid on one side also.<sup>1</sup> The maintenance of a goods-currency balance in the manner described eliminates this fearful factor from our social life and

<sup>1</sup> Since goods and currency must balance, reserves for one undertaking become a dead loss for another, unless this sum is taken up as a credit.



makes unnecessary the building up of industrial reserves or of monetary accumulations *of this order*.

The evolutionary process in civilisation is clearly from the first to the second of these methods, and an essential step in progressing from (1) to (2) is the creation of an open currency. That is, a currency which is free to keep up with the demand for goods and which at all times balances the saleable goods produced at the prices paid for them. Another essential step is to limit industrial reserves of all kinds to provision for the renewal and extension of existing means of production (true capital).

The principle of subdivision by agreement is in process of being firmly established, particularly by trade unions through Joint Industrial Councils, Wages Boards, and so on, but the uncertainty of price levels has always imposed upon employers the need to secure the maximum possible proportion of the claims to the goods produced in order to provide against the vagaries of the trade cycle, unpredictable variations in the worth of currency, and the industrial slumps which arise from this procedure. The maintenance of a goods-currency balance would remove these liabilities, and the fixing of statutory rates for the depreciation and renewal of the means of production would remove this factor also from the problem of 'How much to each?'

The third essential step involves an appreciation of the fact that the provision of means of production (capital) by the private enterprise of individuals has been one of the most important factors in the achievement of the present amazing productivity of human kind. The fact that the power conferred by this upon the classes with the spare money has been often grossly abused, does not alter this, and it is reasonable to suppose that until a better way of doing it has been established, this method will continue as a reasonable factor in industrial enterprise (as in public utilities). The alternative is to substitute central planning and a bureaucratic control which may or may not prove to be anything like so congenial an industrial partner under the conditions we are now discussing. We thus have as partners in the sharing out:

- (1) The workers.
- (2) The management.
- (3) The shareholders or a bureaucracy.



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The proportions allotted to each of these partners depends upon the agreement reached between them on how much to each within the limit imposed by the total sum received for the goods sold and the statutory provisions previously discussed. The actual amounts paid to each thus depends upon the maintenance of price levels which will secure to them the amounts they had in mind when the agreements were made. This brings us to the fourth step required for the establishment of a rational basis for division by agreement. This consists in securing to every factory a basic price for its saleable produce. That is, a price which will enable the agreements to be honoured, provided the output of goods in demand, upon which they were originally based, is maintained.

There are two points involved here :

- (1) It is the produce or earnings of the factory which is being shared out. There must be therefore agreement on the minimum output which is to be produced in order to honour these agreements, followed by scales of bonuses to distribute equitably all outputs in excess of this amount.
- (2) It is unlikely that a socially equitable agreement will be reached at the first attempt. There must be therefore a procedure independent of the parties to the agreement, which will secure this.

Technically there is but one way to do this and that is to arrange for the payment of like wages and salaries for like services to the community in every branch of industry, and then for each factory of its own accord to observe as far as possible the safe limit to savings. Then when savings pass the safe limit by a given amount, this sum must be diverted to wages and salaries in the appropriate branch of industry in order to maintain the effective purchasing power of the community equivalent to the goods awaiting distribution and exchange. Do not forget savings need not exceed the safe limit until all the true capital requirements of industry are being met.<sup>1</sup>

<sup>1</sup> The point here is that those responsible for the extension of means of production must discharge their responsibilities or the safe limit will be passed too soon, and sooner or later this procedure may have to be reversed. In which case, true capital accumulation based on public subscriptions would become fashionable for a time. It is difficult to see how this can be avoided altogether, even if it were to be considered desirable.



This procedure is clearly one of 'to each as he deserves and in accordance with his needs' and it will obviously result in a systematic levelling up of incomes between the different sections of labour as the output of goods increases, until eventually, if the productivity of the nation became great enough, the division of the commodities produced would be in the same proportions to each. But, as the needs of no two individuals are necessarily the same, the indications are that this process will be arrested by appropriate moral forces<sup>1</sup> at the stage where each natural class occupies its rightful place in the body politic, with all its true needs satisfied. Evolution in civilisation is therefore from method (2) to method (3) as the productivity of mankind increases.

#### 10. *The moral approach to how much to each?*

The application of the true principle of private enterprise requires that no man should accept more claims to goods (money) from the common pool than he can rightly use. The only way this can be done is by individual action, but at this stage in civilisation it is not a procedure which can be relied upon. We have therefore to establish different levels of remuneration for different services but with like payments for like services to the community, in order to induce individuals to train themselves or to submit themselves to be trained for specific tasks. We can however reasonably expect a higher standard of conduct from those who manage and direct industry than from the so-called masses. We can rightly demand of them a sufficient knowledge of economic affairs to know that the acceptance by them of a greater share of the earnings of any undertaking than they can effectively use is deliberately to invite a corresponding reduction in the demand for the goods produced under their direction. And, that if this does not follow such an act, they are morally responsible for a corresponding drop in the demand for goods produced by some other undertaking.

This demands a measure of self-discipline comparable with that imposed by the laws of health, if the economic life of the community as a whole is to be maintained. A righteously minded director of industry will therefore see to it that his undertaking

<sup>1</sup> Never by Statute.



keeps up an effective demand for the goods it produces and sells by appropriate readjustments in the proportions of the total earnings disbursed by wages, salaries, directors' fees and dividends. If this were done by everyone so placed, slumps and booms could not occur.<sup>1</sup> The transition to this system of conduct, however, demands the setting up of means which will enforce this procedure should the need arise.

### 11. *The rule that 'if a man will not work neither shall he eat'*

It is fundamental in civilisation that it is through a man's labour *well applied* that he is to obtain all the things he needs, and from this we have the rule of the house 'that if a man will not work neither shall he eat', and the corollary to this, that what a man attains by his labours must depend upon how well he applies his talents and skill to the work he has to do.

We have to remember that the life-giving power or value of labour ever varies. It varies in two ways, in the feeling of pleasure or of well-being which it induces in those who labour, and in the output for a given quantity of labour, and these not as between individuals but also from day to day with the same person. Moreover, the trend in civilisation must be always towards seeking out and producing more and greater life-giving things, and we must not forget that the more beautiful a design or the better the quality of a given product the greater is its value in this fundamental sense. It is therefore absurd to express the relative worth in exchange of any two things purely on the basis of the hours spent in making them, irrespective of their relative intrinsic life-giving powers. Moreover, the reward for seeking out and producing things of greater value in this fundamental sense must be greater, not simply to reward the producers of them, but also to foster the development of similar skill and ability in others. To put the produce of the labour of all men on the same level is not therefore civilisation but the reverse of it, for what a man can obtain for little effort or expenditure of time, he will not usually spend more effort or time attaining. In fact we know from experience that the quality of commodities will tend to deteriorate in these circumstances. So that there should be 'higher rates of pay' as the value of a product

<sup>1</sup> Assuming scientific banking is practised.



is improved, as well as for greater output. In an industrial civilisation there must be therefore continuous striving to produce more and greater life-giving things ; and the relative worth in exchange of commodities must always favour the production of produce of the highest quality.

These aims cannot be attained in our present state of grace other than by acknowledging a greater or finer contribution to the common good by a greater claim to equivalent commodities from the common pool. In short, no one should be able to take more out of the common pool than he puts into it, or can properly possess, for the moral outcome of being able to do so sooner or later becomes wholly degenerate in both its individual and social effects.

If then the observance of the rule that ' if a man will not work neither shall he eat ' be fundamental in civilisation, then equal rewards for equivalent services to a community is a natural corollary of it. And, unless we give effect to this, a steady deterioration in craftsmanship and output will assuredly follow. This is, in fact, already occurring. The granting of a five-day week in any industry, for example, without the qualification that the output of goods shall not be reduced in either quantity and quality is morally and socially bad for all concerned. Similarly, when there is no unemployment and a right and proper procedure for sharing out the produce of industry, there can be no longer ' a right to strike ' for the purpose of forcing a decision favourable to the strikers, at the expense of some other section of the community, but there must, of course, be a right to a hearing of all complaints or disputes in industry by an independent body.

Again, no workman or group of workmen in the public economy we have evolved, should have the right to say precisely what any other worker shall produce in a given time, apart from what shall qualify a man for the minimum wages rate. With the abolition of unemployment and the advent of social security this interference with the rights of the individual should not be tolerated. Who am I to say what the needs of my neighbour and his family are, or what he must needs do to satisfy them. Why should he have to put up with a lower standard of living just because I can satisfy my lesser needs (and they may be purely personal) with a lower output or a poorer quality product.



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### 12. *The traffic in property*

It is the function of money to distribute new goods as they are produced to those with a claim to them. These consist of commodities like bread and butter which are consumed almost at once, and useful things like knives and forks, dwelling-houses and the thousand and one other things of varying durability incidental to the use of them. Commodities which are consumed disappear at once, and all other items of varying durability continue to exist as part of the pile of existing property until they eventually wear out or decay and are finally disposed of as scrap. The traffic in property thus belongs to the secondary circulation of currency and its worth in exchange will depend normally upon its quality, its durability<sup>1</sup> and the demand. This demand will be however part of the total demand for a given product, and since the application of labour power is balanced against the demand for new commodities, the price paid for all secondhand property will be conditioned by the basic price of comparable new varieties and their relative durabilities. Objects of rare quality and great intrinsic worth will of course have a worth in exchange conditioned only by the desire of men to hold or possess them.

### 13. *The dependence of political economy upon the output of goods by industry*

When a goods currency balance is achieved it will be at once apparent to everyone that industry is the primary source of the riches of the people, and that banking, the civil service, the defence forces and other services contribute indirectly to the final result by making it possible for industry to concentrate upon the production and distribution of commodities. This being so, it is imperative that the political economy should ensure that all these services are effected with the utmost dispatch and with the expenditure of the least possible proportion of labour power. In other words, it is not enough that scientific method should be employed in the application of labour and capital to the production and distribution of goods, it must be applied also in law, in banking, in assurance, in civil service, in teaching, in health services, in the

<sup>1</sup> Probable remaining life.



defence forces, and in every other part of the workaday activities of a community. This can be done effectively only when the right to work is assured together with sustenance when unable to work and a pension for everyone when too old to work.

#### 14. *On taxation*

We have seen that a portion of the labour power of the country should be diverted to the creation of means of production (capital) by private enterprise, and that another portion should be diverted to the production of public works by social enterprise. In addition, it is customary by taxation to divert a portion also to the administration and defence of a country.

Taxation is therefore the means adopted for the transfer of a proportion of the labour power of a country to its administration as a state and to its defence. Some of this is direct, as with income tax, customs duties and death duties. The remainder is indirect, as when a penny a pint is added to the price of beer or a penny a pound is added to the price of tea to be collected for the government by the trades concerned.

The direct methods of taxation are, however, based upon the notion that when direct taxes are increased price levels will remain the same. That is to say no one should be able to pass on these increases to others to pay for them, as direct taxation would then be converted into indirect taxation and one section of the community would gain an advantage at the expense of another.

In direct taxation claims to goods are passed to the government and then disbursed to the civil services and the services of the crown, and provided price levels remain the same these taxes are paid by those upon whom they are levied. But with a closed currency any change in the price levels of a given commodity must be balanced by a corresponding change in the prices of other commodities, or by a reduction in the total output. And a reduction in output means that an equivalent amount of labour is unemployed. In other words, the passing on of direct taxation as an increase in the price of commodities with a closed currency leads to unemployment, and there is nothing to prevent the passing on of these taxes by any undertaking which is in a position to secure a higher price for its produce.



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Our present currency is sometimes closed and sometimes open. It is open when the demand for currency compels an increase in the fiduciary issue, and this can arise from an increase in prices due to an increase in direct taxation, or to an increased output of commodities, or both. The truth of the matter here is that direct taxation is converted into indirect taxation by individuals and undertakings of all kinds whenever circumstances permit this to be done. There are, however certain classes of the community which are unable to do this, as for example the civil service, the defence forces, teachers and all others with *fixed* incomes.

On the other hand, indirect taxation directly increases the prices of the commodities upon which it is levied by a fixed amount, and so effects a proportionate reduction in the standard of living of those who use them. The inflation of the currency and the raising of loans by the state are also forms of indirect taxation which we shall consider later, for it is sufficient at this stage to be clear upon what taxation is and does.

The actual proportion of the total labour devoted to collecting taxes does not of course matter very much when you cannot keep all your people employed on productive work. In these circumstances a wise government will employ as many as possible in this way in order to effect a more satisfactory standard of living for as many persons as possible. But with a planned economy which provides work for everyone to do, there is no justification for employing a tortuous and expensive procedure for tax gathering when an extremely simple one will do equally well, and thus release more labour for enterprises which will directly or indirectly raise the standard of living of everyone. There is also the fact that a planned economy will need a central planning organisation for public works and an extended banking system. The simplification of tax collecting could enable this work to be done without extending the civil service. And, as this would mean a higher standard of living for everyone, including the civil servants themselves, there could be in these circumstances no reasonable objection to the application of industrial administrative methods to these affairs of the state.<sup>1</sup>

The simplest possible procedure would be to collect taxes as

<sup>1</sup> Apart from these matters the time has undoubtedly come for the reorganisation of the British civil service on industrial (labour-saving) lines.



a straight charge upon goods through the producers and distributors of them and to withdraw this sum from the primary circulation by the banks in the same manner as the sums required for public works. All taxation would be then passed on by producers and distributors as a fixed percentage on the nominal prices of finished goods and comparable commodities. A procedure which is also consistent with the use of an 'open currency'. It does not, however, follow from this that the incidence of taxation would be the same on all classes of commodities at this juncture. The rate would have to be graded from staple foodstuffs through to luxuries in order to distribute taxation equitably over all the sections of the community. But in considering this matter it should be borne in mind that when public works are 'financed' as social enterprise, when currency is truly provided by the state, and when industry operates upon the principle of basic price, excessive accumulations of capital will be impossible. It is nevertheless doubtful whether the collection of income tax can be dispensed with altogether. It may probably still be necessary to place a tax upon all incomes above a certain figure; that is, incomes upon which supertax is paid in normal times. The point here is that the transition from one basis to the other will have to be effected by reasonable stages until the maximum effective limit has been reached.

15. *Should social services be paid for in the same way as public works?*

All social services of every kind whatsoever are directly or indirectly a charge upon the output of industry, and many weird and wonderful theories and procedures have been invented which have served to hide this simple fact. Moreover, industry has to provide not only the goods but also the currency with which to distribute them. The current fiction upon this point is that money is created by the government and by the banks. The textbooks have it that banks create money and credit, but until industry has produced the goods there can be no real money or effective credit. What actually occurs is that currency is printed and controlled by the government and the banks in a manner which in its ultimate effects is very often opposed to the welfare of the community as a whole and of industry in particular.<sup>1</sup> Take public works as an

<sup>1</sup> Not by design, of course, but by lack of it.



example. The cost of these is really a straight charge on the industrial output during the period they are created. But they are transferred to public ownership by a financial procedure which can quite easily double this cost. This is like paying a bill by cash for a job which has just been completed, and then proceeding to pay for it again by instalments because the other fellow couldn't give you an official receipt at the time and you have therefore no legal proof that you ever paid it. The view taken is that industry would not agree to pay for public works in any other way, and therefore that this is the only method by which to get any public works at all. The fact of the matter is that industrialists have never known how effectively they were being 'stung' by this procedure.

We have developed a method for the transfer of these works to the community, which is based upon the fact that when they have been built they are already paid for by labour and distributed to all alike. Would this procedure also remove the fundamental difficulty in taxation, namely, that of preventing the passing on of these charges to be paid by others by anyone in a position to do so? Public works are a charge upon the community as a whole. Are not all social services, including the civil service, health services, defence services, pensions and disablement allowances, a charge upon the whole community also? They are, and the collection of taxes as a straight charge upon industry is also the obvious way to collect them with the minimum expenditure of labour power.

### *16. Death duties and property*

There are two kinds of property, namely :

- (1) Personal property. This consists of a man's goods which are used by him and by his family and which rightly belong to his family when he dies.
- (2) Impersonal property. This consists of goods like houses and buildings which are put out to rent.<sup>1</sup>

It is socially important that personal property should be invested in the family. When, however, the right to work is honoured for everyone from one generation to another with sustenance when

<sup>1</sup> Not of course the house an owner lives in which is his personal property, or in which his family lives.



unable to work and an adequate pension when too old to work, including dependents, there will not be the same incentive to accumulate money or property against the requirements of old age or as an inheritance for children, and this will be progressively reduced as pensions more nearly approach actual earnings. The right treatment of impersonal property at death therefore depends upon whether pensions for widows and young children take account of income from this source, and the proportion of capital holdings and other properties which the state can, in the interests of social welfare, allow to be willed from one generation to another.



## CHAPTER XIII

# FOREIGN EXCHANGE

### 1. *Exports and imports*

WE can now inquire what effect imports and exports will have upon the political economy this inquiry has revealed.

If every worker in a country is employed and the demand for all commodities is met by the supply, a gift of 150 million pounds-worth of goods may create in that country a precisely equivalent amount of unemployment or of leisure. If the gift was of agricultural produce there would be a loss to agriculture of 150 million pounds and a gain of the same amount by the rest of the community *less* the sums they agreed to donate charitably or otherwise towards the maintenance of the unemployed agricultural labourers. The effect of such a gift is therefore to benefit one section of the community at the expense of another.

The distribution of these goods would have to be effected in practice by the distribution of 150 million pounds in currency, and if these claims to goods were shared out in proportion to incomes, including the agricultural labourers, the effect would be less drastic, but it would still tend to raise the standard of living of one section of the community at the expense of that of another.

If these goods had to be paid for, the same amount of currency (claims to equivalent goods) would be handed over for them, and this would have to be used to purchase an equivalent amount of manufactured goods in the country of its issue, to be exported to the countries supplying the agricultural produce. Imports and exports would then balance, but this exchange would necessitate the transfer of agricultural labourers from the country to the towns to manufacture the goods for export if there was to be no unemployment. That is to say, when imports and exports balance the political economy of a state is unaffected by these transactions except for the social disadvantages (if any) of transferring labour from one section of industry to another. The issue then lies in whether or not it is wise to develop some industries at the expense of others. It is not therefore a function of political economy to



allow an unrestricted interchange of goods between countries, but rather to inquire before any such transactions take place whether either country will truly profit by the exchange.

The unrestricted interchange of goods between countries is usually referred to as the principle of free trade.<sup>1</sup> Actually this is not a principle at all, and can quite easily become a lack-of-principle altogether. Consider for example the country which makes the gift in the above example, i.e. which exports the 150 million poundsworth of goods and imports nothing in return for them. These goods must represent over-production (surplus), or their dispatch would lower the standard of living. If they are surplus goods then the working hours of the people are longer than they need be. On the other hand, if the goods are paid for by goods which they cannot produce for themselves, then the standard of living will be increased in proportion.

From these considerations it is clear that *exports can be balanced against imports by goods manufactured specifically for export or by 'surplus goods'*. If the former, the balance is necessary to maintain the standard of living in the country, and if the latter, the standard of living may be improved<sup>2</sup> for those sections of the community which produce the surplus.

## 2. *The principle of free trade*

The true principle of free trade is that the French (or any other nationals) should employ British workmen for whatever the British can do better than the French, and that the British should employ French workmen for whatever the French can do better than the British. This is not the same thing as the free admission of the products of other countries into the domestic market, whether the products be good or bad or merely 'good for a profit'. It is true that free trade rightly understood is 'the international form of the division of labour in modern society', but rightly understood exchanges must balance and there must be direction in its use. In practice, however, there is a limit to its application, and this is that

<sup>1</sup> Generally defined as the free admission of the products of other nations into the domestic market.

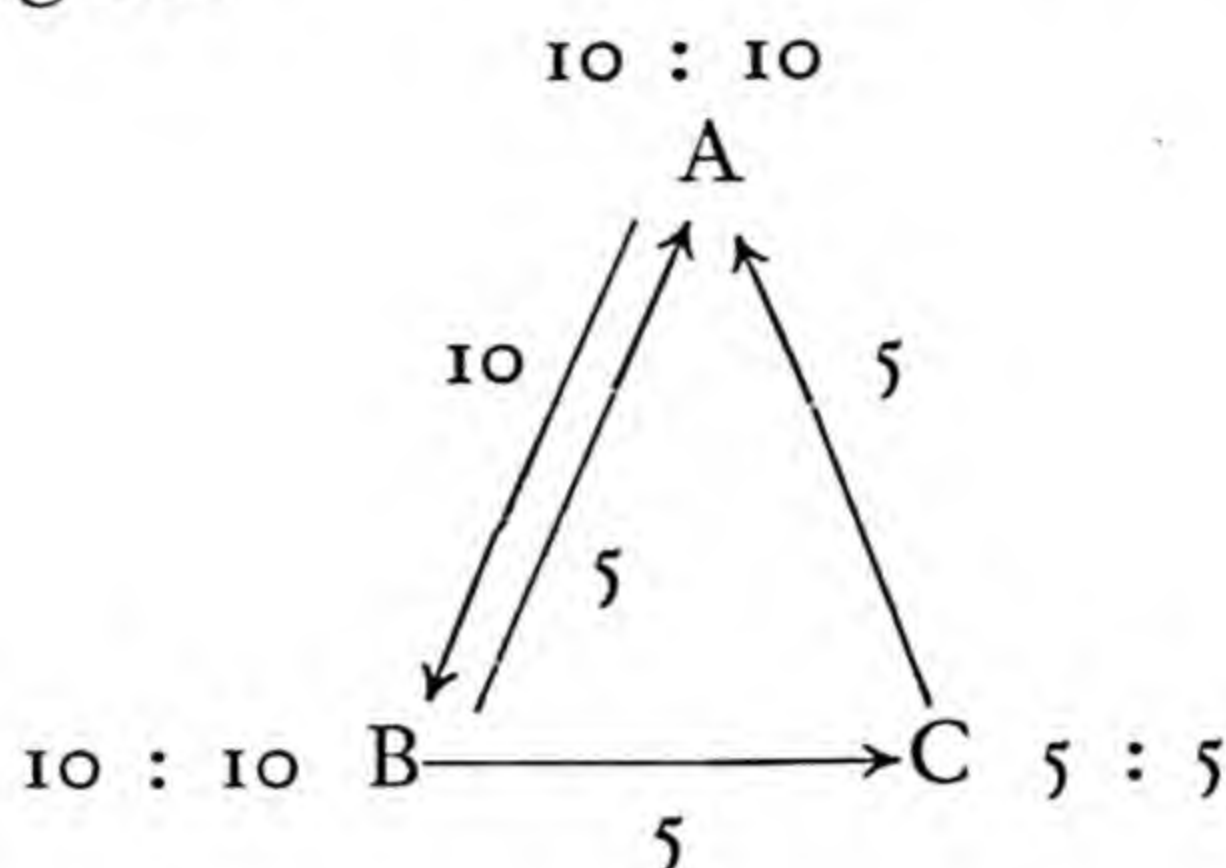
<sup>2</sup> There are two kinds of surplus materials. Those due to over-production by working more hours than are really necessary, and those due to mismanagement, the supply being allowed to exceed the demand.



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exports must balance imports in both countries if these exchanges are not to have a maleficent instead of a wholly beneficent effect upon the respective political economies, and in time upon their political (public) relationships also.

This balancing need not occur between two specific countries so long as there is a balance between the exports and imports in every country effecting such exchanges. This will be clear from the following figure :



Three countries, A, B and C, with exports and imports balanced,  
where the exchanges are not reciprocal.

This is the principle of the division of labour applied to nations instead of to factories, with the principle of co-ordination in its direction applied internationally, in order to balance exports and imports in all the countries concerned.

### *3. The balancing of exports and imports*

It is axiomatic that the export and import trade of a country should not affect adversely the internal economy of a country. It should be complementary to it. But very few countries are completely self-supporting in raw materials, and the only way to pay for supplies from other countries is to build up an export trade sufficient to balance the importation of the quantities required, for goods can only be paid for by goods.

It has been customary to pay for imports by goods or gold. That is you may obtain raw materials from a country which will not accept goods in exchange, by paying for them in gold. In this case the importing country has to buy gold to export if it has no gold mines. In short it has to exchange goods for gold with



a gold-producing country and pass on the gold to the country from which it is taking its supplies of raw materials.

Reducing this to general terms. If a country from which you can obtain your supplies of raw materials will not accept any goods that you produce in exchange for them, you may get over the difficulty by exchanging your goods with another country for goods which *can* be exchanged for these raw materials, i.e. which are acceptable to the country which produces the raw materials you require. If, however, in a group of countries which together possess all the raw material they need, like the British Commonwealth of Nations, each has a balanced internal economy, then the use of gold can be dispensed with in their international relationships except in so far as it is needed as a raw material in industry.<sup>1</sup> *It will be however necessary to co-ordinate the exchange of goods in such a manner that exports and imports balance in each country.*

#### 4. *Export and import prices. Protection and subsidies*

The conversion of the cost of public works from being an indirect charge upon industry to become a direct charge raises not only the question whether these charges are to be included in the prices of goods for export and of imported goods, but also whether any of the charges for our social services should be so included. Countries exchange goods and not social services, so there is no justification whatever either for exporting goods at commodity prices which include charges for social services which we alone enjoy, or for admitting imported goods to the home market at commodity prices which do not carry social charges equivalent to our own, as by doing so we tend to ruin the home market for our own manufacturers and distributors and our international relationships also. The ridiculous way in which we have hitherto financed public works has thus added a burden of taxation which also operates to cut our export trade and at the same time encourage imports to the detriment of the home trade. The practice in some countries of subsidising exports and of protecting the home market by tariffs is not therefore a form of economic war-

<sup>1</sup> In other words, with this public economy the tendency will be for countries to group themselves into self-supporting units and so eliminate friction in international affairs.



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fare but downright commonsense, for which there is both a moral and a scientific basis.

The prices of goods for export should not therefore include the costs of public works and social services, scientifically determined. But exports and imports must balance, so that all these charges must then be added to the costs of imported goods in order to spread them equitably over the whole community. When this is done competition in the home market between British and foreign goods is on a precisely similar footing. And when this is not done the users of the imported goods simply do not pay their fair share of the cost of the social services they enjoy.

The effect of this system is to give free-trading up to the limit where it can have no mischievous effect upon the market for home produce, so that if foreign goods have a lower price for the same quality, or a better quality for the same price, British manufacturers will have to improve either the price or quality of their goods to hold their position in the home market. In other words the labour of other nationals will be used by us when it is superior to our own, and British labour will be used by other nations when our workmanship is superior to theirs. How far the application of this scientific and commonsense outlook in the balancing of exports and imports will carry this country towards the achievement of such a balance it is not possible to say, but it certainly presents the basis for a scientific control of commodity prices for exports and imports.<sup>1</sup>

When adjustments have been made for social services in the prices of goods for export, these prices have to find their level in international trade as in the home trade.<sup>2</sup> Here, again, the crucial point is the control of the international exchange of goods in such a manner that cost and price become identical. But before proceeding to this we have to find a practical solution to the problem of how to maintain the balance between exports and imports, as any lack of balance will have an adverse effect upon the internal economy.

<sup>1</sup> When there is unemployment as in 'normal times', the inclusion of social service charges in the prices of goods for export simply means that goods equivalent to these social service charges are being imported if the standard of social service charges is nil in the exporting country. Assuming this to be the case and that commodities are imported which the country could produce for itself, it is clear that unemployment is being extended by this procedure, and that one section of the community is simply gaining an advantage at the expense of another.

<sup>2</sup> The derating of industrial premises after the first world war was a move in this direction.



5. *On the exploitation of one country by another in private trading*

If any nation anywhere with a lower standard of living, apart from social services, and with longer hours of work or superior methods of production, can show greater productivity and a lower commodity cost than we can with a higher standard of living and our industrial methods, they may still be able to sell their goods in our markets at a lower price than we can produce them for ourselves even under the conditions we are discussing. But since exports and imports must balance, the effect of this will be to reduce exports proportionately. This reduction in the quantity of goods exported will then either increase the quantity of these goods available for the home market, or make labour available for the production of other goods, which if wisely applied will effect an increase in the standard of living.

If a trader exchanges a pocket knife worth two shillings and sixpence for a piece of ivory with a worth in exchange of £10 2s. 6d. in the country from which the penknife is obtained, and into which the ivory is imported, the trader receives £10 2s. 6d. in claims for equivalent goods which must be exercised directly or indirectly in the importing country. That is, he must accept a further £10 worth of goods or property in the importing country or someone else in that country must export £10 worth of goods to the country supplying the ivory, in order to effect the balance of exports and imports. In other words, to effect a balance, the country from which the ivory is exported must receive into it the whole of the proceeds from the sale of the ivory and not merely the penknife, if the trader is a member of that community. There is therefore no gain from the initial bargain for the importing country in these circumstances. On the other hand, if the trader is a member of the importing country the effect of this transaction is to transfer to the trader 10 poundsworth of goods in the importing country which would normally have been shipped to the exporting country to effect the balance of imports with exports. The trader gains. But the importing country has to produce precisely the same quantity of goods as if the goods equivalent of the ivory were exported.<sup>1</sup> That is, the national output of goods is the same and therefore the national income is the same. All that has happened is that two

<sup>1</sup> We are assuming that there is no unemployment.



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and sixpennyworth of ivory from another country has been exchanged for ten pounds two and sixpennyworth of goods in the importing country. Ten poundsworth of these goods remain in the country of origin at the disposal of the trader—some are consumed and the rest go on to the pile of existing property. The penknife is exported. The net result is that a member of the importing country has increased his pile of property by the equivalent of £10 from his own countrymen that would otherwise have been exported in the exchange.

This to dispose of the long-cherished illusion that it is countries which exploit one another. An individual can drive a hard bargain in a foreign country and exploit the result in his own country but that is all he can do, when there is no unemployment.

### *6. At what point does it become an advantage to import into a country commodities which that country can produce for itself?*

When all the labour of a country has been put to work with a balanced economy between the demand for consumers' goods and public works as previously discussed, a country may import commodities to any extent desired up to the limit determined by its exports. But, if a country has one of its labourers unemployed and there is a demand for goods which he could make, only a purblind and utterly incompetent administration will shunt this demand to be met by a labourer in another country. This is not a narrow nationalism, but plain forthright brotherly common sense. Nor does it conflict with the true notion of free trade, which is that the French (or any other nationals) should employ British workmen for whatever the British can do better than the French; and that the British should employ French workmen for whatever the French can do better than the British, provided always that the exchanges balance,<sup>1</sup> and that no unemployment results.

If every worker in a country is employed and the demand for all commodities is met by the supply, a gift of 150 million poundsworth of goods will create in that country a precisely equivalent amount of unemployment, or of leisure, if they are equitably distributed. If the gift is of oil there would be a loss to the fuel

<sup>1</sup> This balance need not be taken between two specific countries.



and power industry of 150 million pounds, and a gain of the same amount by the rest of the community less the sums they agreed to donate charitably or otherwise towards the maintenance of the unemployed workers in this industry. If these goods were shared out in proportion to incomes, including these workers, the effect would be less drastic, but it would still raise the standard of living of one section of the community at the expense of another.

If these goods had to be paid for, the same amount of currency (claims to equivalent goods) would be handed over for them, and this would have to be used to purchase an equivalent amount of manufactured goods in the country of its issue, to be exported to the countries supplying the oil. Imports and exports would then balance, but this exchange would necessitate the transfer of equivalent workers from fuel and power supplies to manufacture the goods for export, if there was to be no unemployment. That is to say, when imports and exports balance and every worker is employed, the political economy of a state is unaffected by these transactions except for the social disadvantage (if any) of transferring labour from one section of industry to another. The point here is that we are seeking a system of conduct which will give security to everyone. This can only be obtained by granting the right to work to everyone and then honouring that right. This means not an end to free trade, rightly understood, but an end to importing commodities which our own people could make equally well for themselves instead of 'living on the dole'.

If I have a works which can employ 2,000 men and I purchase goods abroad which put 100 of these men out of employment, what have I gained? If I don't have these unemployed to keep, I gain the difference between the cost of employing them and the cost of the imported goods. If, however, I have to keep these men (as a country has) the gain is the original cost of the goods made in my own works *minus* the cost of the goods imported *plus* the cost of the maintenance charges. If these two factors balance, so that there is no gain to me, there is still a loss to the country as the whole of the difference between the normal earnings of these 100 men and what they now receive by way of maintenance is paid to workers in another country. If these two factors do not balance and my profits are increased by the sum out of balance, then I have gained an increase in income at the expense of the



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workpeople I have thrown out of work by my action. If, however, this increase leads to my spending in the country as additional profits a sum equivalent to the losses of the unemployed, then work of a different kind will be created for them, and the balance would be unaffected. This can only occur in these circumstances, however, if I pay nothing whatever for the imported goods.<sup>1</sup> This procedure, therefore, inevitably tends to affect adversely the lives of others, and so, if we are going to make a sincere effort to tackle the problem of economic security, we shall have to recognise that freedom in the choice of many goods in exchange for one does not include a choice of imported goods which will affect adversely the livelihoods of any other members of a community. Put in another way : what is the use of providing, say, two therms for the price of one by using imported fuel, if the net result on the national economy is a loss ? Viewed nationally, this is two therms for the price of one plus the cost of the unemployment (*both* capital and labour) so caused, to say nothing of the misery created in the lives of the unemployed and their dependents. The gain in these circumstances is solely to the exporting country.

It follows from these facts that goods should not be imported into any country which that country can provide for itself, unless there is some advantage in employing a proportion of the labour of the importing country upon the production of equivalent goods for export. The limit to the importation of commodities which a country can produce for itself is therefore clearly fixed by two considerations. First, there must be no unemployment ; and second, that for purposes of comparison, imported goods must carry their share of the social service and public works charges,<sup>2</sup> in order to distribute these effectively over the whole population, as would be the case if the goods were home-produced.

### *7. The export and import of money*

We can now ask ' what is the use of sending claims to goods (money) out of a country and leaving the goods to which they are the claim behind ? ' This money will not buy goods in another

<sup>1</sup> Or of course if precisely the same sum is spent by the importers in the country upon goods for export.

<sup>2</sup> The proportion should be the same as for home produce of the same kind.



country unless you can find someone with equivalent claims to goods which exist in that country who will exchange claims with you and in due course exercise your claims. When this is done goods are exported to meet them, or as the saying goes, 'when money is exported equivalent goods tend to follow'. Similarly when money is imported the goods again tend to follow and indeed must follow if a balance is to be maintained.

We can approach this in another way. If money arising from foreign investments is imported and changed into British pounds regardless of the fact that the goods against which this foreign currency was issued do not exist in Great Britain, the currency will no longer balance the goods awaiting distribution and exchange. That is to say, when British pounds are exchanged for foreign currency these pounds must be claims to existing goods and the only goods available for this purpose are goods awaiting export, or goods which have been exported in the hope that a market will be found for them. This means that *the income of a country from foreign investments* (money imports) plus exports, must balance the imports less the currency exported (returns upon investments owned by persons living abroad). Thus, when money is imported exports must be proportionately reduced, and when money is exported goods must follow the money to an equivalent amount; i.e. either exports must be increased or imports decreased in proportion. You can therefore only send money out of a country if someone else will take up your claims to goods within the country who has equivalent claims to goods (directly or indirectly) in the country to which the money is being sent. If this were not the case the exported money would be worthless.

Suppose now we are considering a currency which is not based scientifically upon commodities which exist and are in demand, but upon the fiction that money should be based upon gold-goods only.<sup>1</sup> In these circumstances movements of money as money distinct from claims to commodities which exist and are in demand, must be accompanied by a corresponding movement of the gold-goods (usually referred to as bullion). But claims to goods (money) can be sent by cable from one country to another, thus

<sup>1</sup> The demand for gold has always been a false one since paper money was introduced, as it has been based upon undertakings by governments to purchase all the gold brought to them at a fixed price whether the community had any real use for it or not.



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almost instantaneously increasing or decreasing the currency in circulation by a corresponding amount. It is, however, impossible to transfer a corresponding worth of bullion in the same time. It has to be shipped and there is the risk that it may be lost at sea. In these circumstances you can have in each country a fluctuating goods-currency balance in which the worth in exchange of money for goods in demand (existing in each country) may depend not upon the industry of the people as a whole but upon monetary exchanges which are wholly bad both in their social and international effects. In short, upon the exchanges effected by a body of men usually referred to as 'international financiers'. Broadly speaking, these are men with spare-money at their disposal who know how to take advantage of the fluctuations in the goods-currency balances in different countries to their own advantage and (so they claim) to the advantage of the countries concerned, as they make a contribution to the maintenance of a satisfactory balance. They may of course equally well initiate fluctuations of an undesirable kind, but as we have seen how a firm goods-currency balance can be attained and kept without recourse to transactions of this kind, there is no longer any point in discussing the doubtful merit of them.

The point we have to be clear upon here is that when the goods-currency balance of a country is scientifically maintained, exports and imports of gold will be limited by the demand for gold in industry, and the export and import of money must accompany and not precede the export and import of equivalent goods (including gold). In short, the export and import of money should be governed by true bills of exchange, *backed by goods which exist and are in demand* at the prices actually paid for them. This raises the question of the circumstances under which foreign investments can be allowed without adversely affecting a given community.

### 8. *A Foreign Exchange, and an International Exchange*

The foreign exchanges of a country must clearly balance in goods and money, i.e. in exports and imports, precisely as the internal exchange of goods and currency balance, or the impact of foreign exchanges upon the internal economy will reintroduce the



element of insecurity into the home market. Private enterprise is therefore limited by this requirement to importing goods to balance exports. Moreover, this balance must be attained day by day, and not simply at the end of a relatively long accounting period.

The best way to effect this without recourse to a bureaucratic control would be to have a Foreign Exchange where importers could meet exporters and arrange these balances among themselves, permits being granted for equivalent amounts of exports and imports, with priorities if necessary for the import of raw materials. Earnings from investments abroad and from short-term loans would reduce the quantity of goods to be exported, and the claim against these items in the Foreign Exchange could be for the importing of raw materials. The effect of this requirement would be to stimulate the exchanges of goods between trading countries, although balancing need not occur between any two countries as previously demonstrated.

This fact indicates the need for an International Exchange to co-ordinate imports and exports in such a manner that the required balance is obtained and maintained between imports and exports in all countries, with the supply and the demand for the different commodities also balanced to give identity between cost and price. The International Exchange would operate to balance margins between the exports of the different countries, the National Foreign Exchanges balancing imports against exports for the individual countries.

It will be observed that this machinery could provide an accurate index for the whole world to see of transfers of raw materials vital to war, and arising from this is the suggestion that the way to put an end to modern wars is to stop the accumulation of the supplies of raw materials necessary to fight them. That is, to balance the supply of raw materials to the peace-time demands openly and internationally to all countries alike. For what can it profit any country or group of countries to allow the unrestricted export of vital raw materials, and then have to fight a war to obtain temporary relief from the evil effects of this policy. For it is not usually the countries with ample supplies of raw materials which tend to go to war, but those with inadequate natural resources. A true system of free trade with the same ease of access to raw materials



for everyone based upon a system of Foreign Exchanges operating openly through an International Exchange would in this view go further than any other known means towards the abolition of war.

The Foreign Exchange of a country would include exporters, importers, shipping, insurance, banking, and representation to cover the national store. Incidentally, goods exported in anticipation of a sale being effected could be *via* the national store ; i.e. they could be treated (for the time being) as surplus, so that they would not interfere with the normal balancing of the foreign exchange.

### 9. *The investment of spare-money abroad*

Spare-money consists of claims to goods which already exist, and it would have no worth in exchange unless withdrawals from savings in any period balanced spare-money put on one side in the same period. We have seen that when spare-money is invested in industry, it is equivalent to a withdrawal from savings, and that in these circumstances the goods-currency balance remains unaffected if the savings balance is maintained. It follows from this that the investment of spare- (paper) money in foreign enterprise, will leave equivalent goods unclaimed in the country exporting it, and unless equivalent goods, in effect, follow the money invested, its export represents a dead loss to the community as a whole. With a gold currency, its equivalent in gold was exported, and if no use could be found for this in the exporting country, this procedure could have no evil social effect. In other words, when a country makes a loan to another country it can either hand over to it claims to goods (currency), which must be exercised in the country making the loan or it must make its loan upon a gold basis and export an equivalent amount of gold as goods. When this is done the country making the loan has to produce goods of equivalent worth which are directly or indirectly exchanged for the necessary gold in a gold-producing country, and either way the standard of living of the community may be adversely affected. On a paper money basis, equivalent goods have to be disposed of at a lower price, this tends to check production and create unemployment ; that is, a more or less temporary slump in commodity prices is created. On a gold basis, equivalent goods are produced and exported, and the standard of living of the com-



munity as a whole is proportionately reduced. There is greater stability this way and the loss to the community as a whole can be more accurately ascertained.

The only sensible procedure for a country which does not produce any gold is clearly to make loans and investments abroad on the basis that the claims to goods loaned will be exercised against equivalent goods in the country of its origin. Any other basis is socially and morally unsound. When this is done scientifically such a community is actually denying to itself the use of these goods in favour of the people of the country to whom the loan is made, in exchange for an equivalent return in other goods at some future time *plus* additional goods (loan charges) as may have been agreed.<sup>1</sup> Investments differ from loans in that a greater risk is involved and a higher 'loan rate' is demanded. All loans to foreign countries and investments abroad must therefore pass through the Foreign Exchange and enter into the balancing of exports and imports.

#### 10. *The determination of the rate of exchange of different currencies*

The balancing of goods by goods involves the conversion of goods into terms of currency, and it is the worth of goods thus expressed which must therefore balance in the Foreign Exchange. The starting-point in this matter is the fact that currency is drawn against the basic-prices of the goods exported, and therefore equivalent worth in imported goods should be admitted to the home market almost at once. Equivalent *worth* of goods. How is this to be determined?

It should be clear that this is the sum *actually obtained* for the goods exported in the foreign currency, which has to be balanced by a corresponding sum obtained for equivalent goods imported. The problem is best approached through an example. If we export goods to the U.S.A. and obtain 10,000 dollars for them, we can buy 10,000 dollars worth of goods in the U.S.A. and import them. Our price for these goods in the home market would then be that of the goods exported *plus* any additional charges we may have incurred in effecting these transactions. That is to say, when

<sup>1</sup> There is of course nothing to prevent a wise and beneficent administration from effecting a corresponding increase in output over a given period to meet such demands on a lease-lend procedure.



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a firm exports and imports equivalent quantities of goods it automatically fixes its own rate of exchange of the two currencies, within the limit of the market prices for the two groups of commodities in the home market. If, however, we only export goods we shall have 10,000 dollars we wish to convert into British currency, and we can only do this if we can find someone who wishes to buy 10,000 dollars with British pounds and then only if a rate of exchange can be agreed. The basis for the exchange is clearly the amount paid by us for the goods exported.<sup>1</sup> We want this amount *plus* reasonable remuneration for our services, as this is the rate at which we must exchange the goods, or the claims to them, if we are to continue in trade.

These examples bring out the fact that the rate of exchange will vary with the actual goods being exchanged and that we shall therefore do the maximum amount of international trade if we effect the balance of the goods we export and import ourselves, as this will cut out any necessity to convert, say, dollars into terms of British pounds, and vice versa.

With a scientific banking system exporters and importers conduct their business through banking accounts in British banks, so that if these are kept in terms of: exports—pounds spent, dollars received: imports—dollars spent, pounds received—they resolve themselves into an account in dollars which should balance, and an account in pounds which should also balance over the trading year, and there is no necessity to express either of these accounts in terms of the other. Put in another way, all receipts for goods exported to the U.S.A. will appear in a dollar account in a British bank as awaiting its expenditure upon goods to be imported from the U.S.A. For this American currency British importers will be obviously willing to pay British pounds at a rate of exchange determined primarily by the sums received for the goods imported by them and secondarily by the market for these commodities. That is to say, the balancing of receipts for exports in dollars, against receipts for imports in pounds, when exports balance imports (in terms of the actual sums received) determines the rate of exchange.

<sup>1</sup> With basic prices for commodities in the home markets a basic rate can be fixed for the services involved in effecting the transfers and so provide a basis for ascertaining the rates in exchange of two currencies.



Exports to the U.S.A. will balance imports from the U.S.A. when the dollars received for the exports balance the dollars expended upon imports ; the corresponding account of amounts paid out in pounds on account of goods exported (including the cost of the goods) to the amount received on account of goods imported, should also balance. The point to note here is that the dollar balance is in the hands of the British, and the pounds balance is in the hands of the U.S.A. and the ratio of dollars to pounds in these two accounts is the actual rate of exchange for the period under view. Moreover, if a balance is secured through Foreign Exchanges, operating on the basis of goods actually sold, these accounts will give the actual rate of exchange of dollars for pounds for the period under view.

The difficulty here is that since the balancing of exports and imports cannot be attained entirely by individual firms, it is necessary to know the rate of exchange in advance and not at the close of a period. The moral principle involved here is that it is the duty of the state to secure an equally stable currency for international trade as for the home trade. This involves the fixing of the exchange rate at the beginning of a financial period. This must be agreed between the two countries and could be the ratio for the previous period indicated above. They will be the same when determined by the banking systems of both countries so that only a check is involved.

In considering this point it must be borne in mind that the maintenance of a scientific goods-currency balance in each country, with the holding of a balance between consumers' goods *plus* means of production and public works, will create and maintain stable price levels for all commodities in the home markets. And, that the national stores of imported raw materials sufficient to absorb fluctuations in the prices of them, will damp out the possible fluctuations in commodity prices which normally arise from this source. It is therefore possible in these circumstances to obtain the rate of exchange of two distinct currencies by ascertaining the ratio of the prices of an agreed range of commodities in common use in the two countries *less* public works charges, social services and taxation. This procedure would have to be followed in the first instance to obtain the rate of exchange after the two internal currencies have been stabilised on the goods basis. Any changes



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would then turn upon the actual ratio as given by the banking systems or the actual exchanges over a given period. Another point here is that as export prices are dependent upon the kind of goods exchanged there may be a slight variation in this ratio from one period to another, but as export prices are independent of public works programmes, social services and taxation (including repayment of national debt), exchange rates will remain stable,<sup>1</sup> provided satisfactory means are devised to deal with goods exported but not sold.

Goods exported but not sold should not be included in the export-import balance, for although they represent an investment comparable with 'going into business on one's own account', in that any loss will be carried privately out of capital or loans, they would still falsify the actual exchange rates. The procedure indicated here is to receive such goods into foreign branches of the national store and operate them through a distinct account with transfers to the export-import balance as sales are effected. This method would incidentally simplify the supply of currency for this kind of enterprise in that the national store certificates of goods held against sales could be used as security for loans.

### II. *Trading agreements between different countries*

The considerations set out in the preceding paragraphs indicate that the basic trading agreements between different countries should consist of undertakings :

- (1) To spend all the foreign currency received for goods imported into a country in that country, directly or indirectly through an International Exchange.
- (2) To export goods at prices which do not include the charges upon the exporting community arising from public works programmes or social services of any kind.
- (3) To fix a provisional rate of exchange of the two currencies based upon the prices of an agreed range of stable commodities *less* public works and social service charges. This would be the rate at which traders would operate during a specified first period.

<sup>1</sup> We return in effect to the days when most countries were operating on the gold standard, but without the sacrifice in the standard of living that this entailed.



- (4) To fix a rate of exchange for the two currencies upon the actual ratio of the prices paid for the goods imported into the two countries during the first period, for future trading.
- (5) Thereafter to conduct all trading on a rate of exchange so determined, if this should be necessary, with adjustments out of public funds in either country as circumstances may dictate at the close of each period, in order that the international exchange shall be as stable as the internal currencies of the two countries.

This procedure would stabilise the international exchanges without seeking to modify in any way the internal currencies of the different countries, provided it was impossible for governments, banks, or any other bodies to inflate or deflate the currency of any country participating in the International Exchange.

## *12. The National Store and the Foreign Exchange*

A shortage of any commodity in a country in which all are employed can arise only from a faulty economy or from a shortage of raw materials, which, if they are imported, resolves itself into the mismanagement of the Foreign Exchange. This indicates that these requirements should be known. But planning ahead is not a matter which can be effected for a community with any degree of exactitude, as public tastes are always changing, so that a national store is really part of the machinery required to absorb fluctuations in demand for stable commodities due to such changes. The two world wars should have taught us that a country must always carry stocks of grain, feeding stuffs, raw materials and oil, sufficient to meet any extraordinary demand which may arise, without affecting the internal economy. Only a national store can do this, and when peace is declared the national stocks of commodities which we now have must not be "emptied into the markets" to wreck some businesses and make fortunes for others. They must become the basis for a true national store, unloading into the market to maintain supplies as they are needed, and taking into it reasonable surpluses of vital raw materials as they become available.



The payment for commodities taken into the national store from the produce of a country in times of plenty, should be by bank credits granted against the goods, and thus be part of the machinery for keeping all the money at work all the time. Purchases of commodities from abroad which are received into the national store should be treated as a part of the imports into the country and paid for by equivalent exports, or by gold, for gold is a commodity, like grain, oil, iron ore, or anything else you can think of, which most countries will accept when they will not accept other goods.<sup>1</sup> This gold must be paid for by exports, so that the procedure is fundamentally the same but more involved. The bank and other charges incurred by these transactions would be a constituent item in the final prices for the commodities stored. Losses due to deterioration (which should not be allowed to occur to any appreciable extent) would also figure in the final commodity prices, as in normal trading.

### 13. *Shipping and the Foreign Exchange*

Transport is a constituent item in commodity prices. This applies also to commodity prices for exports, and the transport in this case includes ships. The question which therefore arises is: since land transport carries equivalent costs of social services, should not shipping also. The answer with exports is no, when carrying foreign cargoes for other countries yes, and when importing goods into this country, yes.

At first sight this point may appear to be one which will discourage the use of British ships for imports into Great Britain. The social charges, however, are not paid by the importers but by the British public, and so would be added to both shipping and importers' costs in the final fixing of the commodity prices of goods brought into the country in foreign as well as British ships. Before September 1939 many countries were 'subsidising' their shipping. Isn't this indirectly what they were doing?

<sup>1</sup> It should be clear that transfers to the national store in times of plenty will be at prices somewhat less than the normal level for these commodities.



#### 14. *The maintenance of basic price levels for home-grown agricultural produce*

If the same social charges are added pro rata to all imported farm and country produce as are included in the charges for home-grown produce, British agriculture can have no cause for complaint, provided it has available to it the requisite equipment to employ modern methods. In these circumstances there should be no difficulty in securing a firm market for the whole of its output. The question arises, however, whether this procedure will result in a permanent increase in the cost of living for everyone, as the wage levels of this country have been built upon a 'cheap loaf'. This will have to be ascertained by experience, and if the maintenance of the existing wages levels in industry involves a standard of living for agricultural workers lower than that of comparable workers in the towns, the wage levels of the workers who are adversely affected by the change must be raised proportionately. It will not, therefore, be out of place to consider the procedure required to effect wage adjustments of this order, should they be found necessary.

#### 15. *The adjustment of wages levels*

The determination of the minimum wages to be paid in any industry and the linking of wages, salaries, and so on with output, ensures prosperity for employers and employed alike in each branch of industry in proportion to the output and quality of the goods produced. It also provides an incentive to all concerned continuously to increase the output and quality of the products made. It does not, however, remove anomalies in wages rates between different branches of industry; that is, it does not secure like wages for like services to the community. For example, it has been the considered opinion of the public as a whole that the wages of miners and of agricultural workers have been too low. There is, therefore, the problem of how matters of this kind might be remedied. This leads to the question of what would happen with the economic system under view if the state decided to raise the wages of these workers on to the appropriate levels. Take coal as an example. The price of coal would obviously have to



be increased proportionately. The industry would therefore have to provide the additional currency required to distribute coal on this basis, as it must disburse currency equivalent to the goods it produces at the prices actually paid for them, and it must do this in advance in order that the goods can be purchased. Such a procedure will clearly increase the capital accumulations we are trying to avoid and for which there is no moral justification. This difficulty, however, does not crop up if such a change is made by a government subsidy of a somewhat different order than that we have been accustomed to.

Let us examine this more closely. If wages are increased in one industry, all other wages remaining the same, and the fiduciary issue is increased by the government by the amount required to distribute the goods of this industry at the higher prices involved, what happens? Suppose the fiduciary issue is 99 with 4 devoted to coal, and to do this with the coal industry involves an increase to 100, what will happen? The coal industry will take  $5/100$ ths of the total goods produced in place of the  $4/99$ ths previously allotted to it. That is to say, there will be a redistribution of the total goods produced more equitably over the whole populace. This is precisely what we are trying to do.<sup>1</sup> Such a 'subsidy' must be obviously made available to the industry in question through the banking accounts of the individual firms. The amount necessary to produce this result should not be difficult to determine, and it should be possible to calculate the new factory man-hour or man-shift rate before the subsidy is awarded, or to check the allocation of the award at the close of the accounting period independently of the companies concerned. That is, by statistics supplied by the banks and joint industrial councils.

<sup>1</sup> We must clearly bring to an end the cycle of wage increases starting from the miners and proceeding through the engineering and other trades to which we have more or less grown accustomed. This procedure simply leads to a spiral of rising prices with an ever-changing proportion of earnings disbursed as wages which may have no real relationship to output.



## CHAPTER XIV

### ON BANKING

#### 1. *The part played by banking in the political economy of an industrial civilisation*

BANKING is a vital part of the political economy of any industrial civilisation. Its function is to distribute and maintain a currency which will at all times balance the commodities produced at the prices paid for them, and to do this with a 'paper currency' it has to provide for :

- (1) The drawing of claims to goods (money) against goods and the cancellation of these claims as they are satisfied by goods.
- (2) The exercise of all claims to goods within a reasonable accounting period, so that the commodities against which currency is drawn are actually distributed and put into use in that period.

The first of these requirements can be met by the government granting the right to produce, manufacture or distribute commodities to everyone alike, subject to the use of a banking account, with the payment of all raw materials, partly finished goods and finished goods for resale by not-negotiable goods cheques, and the payment of all the currency received into this account. The procedure is slightly different for 'one-man' businesses.

The second requirement can be met by the extension of the bank-deposit system (credit facilities) to the point where all the money is kept in use all the time. This involves the observance of the scientific limit to savings, and the adjustment of wages and salaries levels from time to time to convert all savings in excess of this amount into active purchasing power.<sup>1</sup> It also calls

<sup>1</sup> The theory that all spare-money can be 'invested' if the requisite security is given to the investors by the elimination of unsound investments, can be true only if all those who are able to use the goods which are 'surplus' owing to excessive savings are willing to 'mortgage' future earnings in favour of present spendings. And this can only hold momentarily, even though 'a fool be born every minute', as the burden of 'debt charges' will sooner or later destroy the ability to adopt such a procedure. The outlook of the ancient fathers of the church 'on usury' was not mere moralising but sound economics.



for an open currency in which the total fiduciary issue at any time is that dictated by the total worth of the commodities to be distributed at the prices paid for them.

With this procedure neither the fiduciary issue nor the credit facilities are governed by the deliberations of bankers or of governments, but by the goods-currency balance. Currency is printed for the government and distributed by the banks to an amount determined solely by the demands of industry for means to effect the distribution and exchange of commodities just as quickly as they are produced.<sup>1</sup> In short, currency is drawn directly or indirectly against goods as they are produced and against nothing more.

The constitution and powers of the banks must be therefore such that neither the bankers nor the government, nor any other section of the community, can interfere with a strict adherence to this scientific fact without a specific charge to do so being first obtained from the whole people. This observation raises the question as to whether banking should be nationalised or rationalised.

## *2. Should banking be nationalised or rationalised?*

The overriding consideration here is that it must be impossible for governments or bankers to interfere in any way with the scientific maintenance of the goods-currency balance. There is also the question whether each member of a community is to have the right to choose his banker, as he chooses his butcher, baker or candlestick-maker, for banking must not become the monopoly of a privileged class, nor must the granting of bank credit be a matter for patronage. On the other hand, competition should be limited, so that only the advantages of competition are retained.

History shows that the greatest danger is interference by governments.<sup>2</sup> The Nazis for example could not have built up

<sup>1</sup> This does not necessarily mean their immediate distribution to those who will use or consume them, as the stocks normally carried by tradesmen, for example, represent credit allowed to them directly or indirectly by the banks or investments of spare money, both of which are included in the goods-currency balance.

<sup>2</sup> For an account of interference by governments see *The Intelligent Woman's Guide to Socialism and Capitalism* by Bernard Shaw.



their colossal power in armaments if they had not been able to manipulate the currency to this end. Nor could the German government have liquidated the internal debts of that country at the end of the last war without the power to issue unlimited amounts of paper money. So that if the heart of an industrial civilisation is to be sound, banking must be rationalised, and we must put an end to the manipulation of currency by adopting a fixed system of conduct based upon the scientific approach.

For this it is necessary accurately to define :

- (1) The functions to be performed by the banking system.
- (2) The precise limits within which these functions must be exercised.
- (3) The charges to be made for the services performed.
- (4) The remuneration to be allowed.

Moreover, since an honest currency does not permit interference with its scientifically balanced operation by the government, or by the bankers, or by monetary interests of any kind whatsoever, a Board of Bank Referees or Commissioners or its equivalent should be appointed to represent the public, to see that the monetary system is operated scientifically and strictly in accordance with the powers granted.<sup>1</sup> The public should have the right to complain to this body on all matters affecting the currency and the conduct of banking operations. This body might also, on authority from the government, authorise banks to make the necessary transfers to the public works and other funds, and industry to increase commodity prices proportionately. Upon its own authority it might also authorise increases in wages, etc., by the payment of bonuses in the appropriate branches of industry should this become necessary to maintain the balance between savings and withdrawals from savings, and so prevent unemployment. This procedure would ensure the maintenance of an honest currency independent of the government and of all monetary interests whatsoever. It would fully guarantee all savings by

<sup>1</sup> The decision has been made since this was written to nationalise the Bank of England (the central bank of the system) but not the banking system as a whole. This is of course one approach to the solution of this problem provided that under its new constitution it is impossible for the government of the day, or any other body for that matter, to 'manipulate' the currency.



existing goods, and in these circumstances there would be no unemployment due to monetary considerations.

Banks should not charge interest for these services, for they are not to be regarded as money-lending institutions. It would, however, still be most convenient to express bank charges as a percentage on the actual sums handled over the period of time they are in operation.<sup>1</sup>

## 3. *On the reform of currency*

It is helpful at this point to view these proposals against the general background of ideas upon currency. For this we cannot do better than use part of the summary made by the late H. G. Wells<sup>2</sup> in 1932, thus :

The experience of the past century should have taught the whole world quite convincingly that it needs a currency, that is to say, money, *purely as a counter, a cheque*,<sup>3</sup> between services and commodities.

The literature of monetary reform has some very distinctive characteristics. For the most part it has been extraordinarily superficial. Very few of those who have dealt with money have made any attempt at all to go down to its roots in psychology and material necessity. Currency reformers have a way of beginning in the air, high in the air, even more detachedly and arbitrarily than did the old political economists. They assume international competition for prosperity, and all sorts of secondary, questionable and transitory complications, as though they are essentials in the matter.

The first broad classification of monetary reformers is divided into two sections : (1) those who still cling to the barter core, who insist that some commodity be made the standard of value by the substitution of other commodities for all or some of the gold in use, and (2) those who have already turned the matter about from the point of view of the money manipulated to consider it from the point of view of the worker, and who have realised that money can be detached altogether from standard commodities. We might put together all that former class of projectors as the Old Money School and these latter as the New Money School . . . The difficulty that prevents the Old Money

<sup>1</sup> There should in social equity be a charge upon every concern based upon the sums handled, for there are no moral grounds on which to justify charging the person who uses a bank credit more than the person who provides the basis for it. The transaction is mutually beneficial and is not confined to the debtor.

<sup>2</sup> *The Work, Wealth, and Happiness of Mankind*, by H. G. Wells.

<sup>3</sup> The italics are mine. The currency system we have built up is nothing more than a scientifically operated cheque system.



School from assimilating the newer views, is the difficulty of escaping from the desire for intrinsic worth in money itself. Whatever token or note is circulated they seem to think, somehow, somewhere it must be 'presented' and something of value, a piece of metal or the like, handed over. That is the haunting idea that encumbers their minds . . . They have a profound dislike, based on the horrid memories of the post-war currency convulsions, of any money that cannot be brought to the test in this fashion. 'Sad experience suffered by many countries,' says Professor Cannan, for example, 'has convinced the world that a currency . . . must be made to conform with some outside standard'—and he argues no more about it.

This is a fair statement of the confusion which exists among social reformers with regard to the functions of currency.

It will be observed that we have built up a currency which meets the test of the Old Money School—that all the money in circulation shall represent some usable thing—but without using any particular commodity as a standard. For what is 'the use of money' if we cannot go to a market and obtain goods for it. That is to say, a currency which falls within the purview of the New Money School but retains the vital touchstone of the Old.

## 4. *The functions to be performed by a scientifically operated banking system*

The functions to be performed by a scientifically operated banking system are :

- (1) The issue and cancellation of claims to goods as they are met by goods.
- (2) The recognition and operation of three distinct circulations.
- (3) The maintenance of the goods-currency balance.
- (4) The keeping of all money at work all the time.
- (5) The observance of the scientific limit to savings together with the keeping of the necessary statistics to enable any excess to be equitably distributed.
- (6) The maintenance of an open currency with automatic changes in the amount of the fiduciary issue as may be required to maintain the goods-currency balance.
- (7) The collection and redistribution of the currency required for public works (both cultural and utilitarian), for



health services, disablement and pensions and for the civil service and defence.

- (8) The determination of the actual rate of exchange of different currencies.

The items (1) and (2) do not require further consideration here, but there are limits which we need to be clear upon relating to the rest.

## *5. The maintenance of the goods-currency balance*

The maintenance of the goods-currency balance is the focal point of the whole system for the distribution and exchange of commodities, for when this is scientifically maintained, the only limit to the welfare of the human race is the ingenuity of man and his ability rightly to use the things he creates.

It should be clear that the sums drawn by producers, manufacturers and distributors against the commodities made and sold by them in any accounting period, should balance the amount received by them in the same period, and be distributed by them to those with a claim to the goods produced or to their equivalent in other goods. When these undertakings amass reserves they are actually taking out of circulation sums without which all the goods produced cannot be equitably distributed unless they invest these sums in other projects, or the banks are able to cause this amount to be used through the bank-credit system. When these amounts are paid out, some of the claims are exercised at once; that is, they are exchanged for equivalent worth in other commodities, and the rest directly or indirectly becomes spare-money held in deposit accounts by the banks.

## *6. Keeping all the money at work all the time*

If the currency at all times exactly balances the commodities produced at the prices actually received for them the pocket money and credit balances of individuals and firms can only be due to withholding claims to goods from the markets or to the exercise of the right to make no choice at all. In short, for every credit there must be a corresponding debit if the accounts of the nation



as a whole are to balance. It follows from this that the bank-deposit system is concerned to keep all the credit balances of all its customers in use, whether they be credit balances of producers, manufacturers, distributors, insurance companies, building societies, government departments or of private firms or individuals in the secondary circulation.<sup>1</sup> The fact that salaries, rents, rates and taxes are paid out monthly, quarterly and at longer periods does not affect this issue. The goods these credit balances represent already exist unclaimed, and if equivalent claims are not distributed at once by the producers, manufacturers or distributors, they must be exercised for the time being by those who are willing to use the goods or put them temporarily into stock. For this to be done somebody somewhere must indirectly invest spare money in them or stock them against a credit allowed by those who have made and supplied them, or by a bank. And, when the banks cannot keep all the money at work the limit to savings has been reached and passed by the amount for which there is no effective demand.

### 7. *The savings balance*

When a man goes into business, part of his initial deposit or savings at the bank becomes the currency used to distribute the goods he produces or purchases for resale. The sale of these goods and their continued manufacture and sale, then serves to sustain this amount. If after currency has been drawn to pay manufacturing costs the goods are not sold, the producer is left with the goods he has caused to be produced which he must now consume, destroy, or use himself. What then happens to this currency? The currency in question has been drawn against these goods by the demand of the manufacturer from his account at a bank, and this sum is secured to the bank by marketable securities of equivalent worth (which can be sold to recover the amount) or by a deposit of spare-money. If the goods will keep (say, books or furniture) the labour expended has enriched the manufacturer by the possession of them, and since it is the function of currency to distribute goods in exchange for claims to goods (new

<sup>1</sup> It is a completely false pride which views a credit balance as anything more than a social privilege which is only possible because someone else somewhere is correcting the goods-currency balance with a corresponding debit.



or deferred) this has been accurately discharged. The point to note here is that spare-money is not backed by anything, unless it is used. It is therefore a vital function of banking to maintain a balance between savings and withdrawals from savings, for only in these circumstances can savings be taken to the market and exchanged for equivalent goods.<sup>1</sup> This is achieved in effect when there is no idle money; that is, when the bank-deposit system is operated to keep all the money at work and not nine-tenths or any other fraction of it.

Savings would be guaranteed by goods without the need for a savings balance if the goods which made them possible could be kept until they were claimed. Some goods can be kept, and so this problem is partly solved by the storing of them but only for relatively short periods. In practice, however, this procedure simply irons out the normal fluctuations in demand caused principally by the fact that the claims to them are not distributed as quickly as the goods are produced. Wages are paid weekly, and salaries, rents, rates, taxes, dividends and the like at other periods.<sup>2</sup> There is also the lag due to the time taken in delivering the goods to the points of distribution, which has also to be overcome by storing a quantity of them and by the use of bills of exchange, in order to keep up a continuous supply.

It is also interesting to note that if the banking system were to operate on the basis of a 10 per cent limit to the bank-deposit system, backed by gold, then 90 per cent of the currency (the part which is in circulation) would be guaranteed by goods, and the idle 10 per cent by gold. That is, all the currency would be backed 100 per cent by goods, for gold is a commodity like anything else. But there is no real demand for gold, and there is an overwhelming demand for the necessities of life which cannot be made because there is not the means with which to distribute them to those who would use them.<sup>3</sup> Hence, in a rational civilisation, the currency

<sup>1</sup> It may be obviously necessary for banks to require a few days' notice for withdrawals from savings accounts.

<sup>2</sup> Dividends cannot be paid until the margin between the sum received for the goods produced and the cost of producing them is known.

<sup>3</sup> I hope that no one will try to argue that this is a *socially* sound practice. The gold has to be bought abroad, and the money drawn against it is taken to the market for other goods. To get this clear, suppose, for example, the gold-backed money was withdrawn all at once. What would happen? It is certain that the great majority of the holders would not claim the gold it represents and



will be backed by gold only to the extent to which there is a demand for gold *for use in manufactures*, and gold will take its place with other goods. The notion that everyone wants gold is a fiction which is given an air of verisimilitude by the government or bankers guaranteeing to purchase all gold brought to them at a fixed price<sup>1</sup> at the expense of the community. If there were no such guarantee, there would be no demand for gold except for use in industry or by countries less developed in an industrial sense, and the currency would still be backed 100 per cent by goods which are in active demand by the public.

#### 8. *The observance of the scientific limit to savings*

The point has been made that when the banks cannot keep all the money in use and so maintain the goods-currency balance, the limit to savings has been reached and passed by the amount for which there is no effective demand. In these circumstances a proportionate amount of unemployment will be created or price levels must fall to effect a balance. The admission of unemployment into the political economy of a civilised state is not permissible, and if price levels fall the remuneration of capital must fall proportionately, or wages, salaries and fees must be reduced. If a balance is effected by adjustment of the wages and salaries levels, the purchasing power of the community will be reduced still further, for excessive accumulations of savings are not normally associated with these classes. A vicious circle is thus begun which cuts into the purchasing power and productivity of the community until a goods-currency balance is obtained with a corresponding proportion of the workers unemployed and an equivalent amount of savings unsecured.

What is actually required here is an increase in the effective

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it is equally certain that there would not be an equivalent demand for gold by other members of the community. In short, gold holdings of this kind are good for nothing in the emergency they are ostensibly held against. The practice in such an emergency would be to close the banks. It is, of course, right and proper to back the money in the tills of the banks by equivalent gold holdings, when steps cannot be taken to see that this money is backed by goods in demand.

<sup>1</sup> In practice this amounts to nothing more than a promise to put £3 17s. 10½d. worth of notes into the national till for every ounce of gold brought into the country, and then having put it into the till to keep it there. The whole procedure is thus of no earthly use whatever to industry; in fact, it represents the misuse of an equivalent amount of industrial labour power.



purchasing power of the community. This can only be obtained in practice by increasing wages and salaries by the amount of the surplus savings spread over a similar period to that in which they have arisen. This is incidentally the only way by which all the savings of a community can be guaranteed 100 per cent by goods in demand. The need to disburse excess savings in this way raises the question whether they should be allowed to accumulate until an all round increase can be given to all the workers in every branch of industry or not. The deciding factor here is the creation of unemployment or of shorter hours of labour, and as one or other or both these phenomena may occur before this stage is reached, we must face the problem of deciding in which branch of industry the wages and salaries levels should be increased in an emergency of this kind.

9. *The moral aspect of the observance of the scientific limit to savings*

If the currency is at all times to balance new goods as they are produced at the prices paid for them every manufactory and distributory in the country must distribute over each accounting period a currency exactly equivalent to the goods sold by it. It follows from this that it is the moral responsibility of the persons who attain the stewardship of these concerns (owners, proprietors, managers or directors) to see that this is done. But it is not enough simply to distribute money equivalent to the goods sold as this money must be used to claim these goods or their equivalent in other goods if the goods-currency balance is to be maintained and slumps and boom periods avoided. It follows from this that no firm should be allowed to accumulate idle reserves. Moreover, it also follows that no-one should take as their share of the earnings of any concern more than he or she can effectively use, as when this is done the sum which is kept idle becomes excessive savings. Money put aside by insurances to provide for old age or infirmity is of course being effectively used, as by the law of averages, and provided the insurance rates are reasonably correct, the sums being withdrawn over an accounting period will tend to balance these sums over the same period. In short, when there is a goods-currency balance with the money in circulation kept up to the goods sold, businessmen will quickly realise that whenever they



hold back currency from the common pool, they are really reducing the effective demand for their own goods, and that it is only by virtue of the social right of choice of many things in exchange for one that their goods may continue in demand. When currency is held out of circulation in this way a precisely equivalent quantity of goods which are in demand but which are produced by some other firm, is left unsold.

This procedure is socially bad, and therefore a non-moral act and a denial of the duties of stewardship implicit in the management or direction of any undertaking whatsoever. But a community can only protect itself against this non-moral practice by setting up a procedure which will reveal the sources of excessive savings as previously described. These amounts can be then systematically transferred to those who will use them.

Similarly, it is not a difficult matter for a state to keep a check on industrial reserves. The law here is that sums put to reserve in any period must balance the sums withdrawn from reserves in the same period over the whole of industry. There can of course be no objection to balancing a decrease in the savings account against an increase in the industrial reserves account. Indeed, this should be done as a matter of course, the final balancing being effected on a composite account.

#### 10. *How the need for wage increases is indicated in different branches of industry*

The wages, salaries, fees and dividend levels for any branch of industry (the four minima) can be only fixed in the first instance relative to the existing rates. And the point in social equity, that like wages, salaries, fees and dividends should be paid for like services to the community can be dealt with by the procedure already described. But, when both these items have been cleared, it will still be impossible to say whether the commodities produced in any given factory are being equitably distributed among those with a claim to them by the proportions allotted to the wage earners, to the management and to the shareholders. It is clear, however, that a socially equitable distribution will not lead to excessive accumulations of spare-money, and that this is the test not only of the social soundness of the agreements relating to the four



minima, but also an index to the branches of industry responsible for the savings of the community passing the safe limit. What then is required is a procedure which will enable the source of excessive savings to be located if they should arise, so that the wages and salaries levels in that branch of industry can be adjusted to eliminate them.

In considering this point we must remember that we are seeking economic security for everyone alike, and that the right to work, to sustenance when unable to work and to a pension when too old to work applies to every section of the community, so that there is no moral justification for anyone undermining the security of their fellows by accumulating unnecessary and 'socially evil' amounts of spare-money. All that is required to achieve this is that the banks should classify deposit accounts in terms of the origin of the amounts deposited. This simply means that when a person opens a deposit or savings account he must state his occupation or alternatively his source of income.<sup>1</sup> The completion of the necessary statistics which will enable the sources of excessive savings to be located is then a straightforward matter.<sup>2</sup>

All this would be unnecessary if those responsible for the stewardship of individual firms of all kinds were to observe the social requirement not to accept (or take) a greater share of the earnings than they can rightly and effectively use. It is clear, however, that the procedure outlined above must be an integral part of any sincere attempt equitably to distribute the commodities produced to a community which has made them. And when this is provided for, the system under view will effect their distribution as nearly as is possible to each as he deserves and in accordance with his needs.<sup>3</sup>

<sup>1</sup> Vital statistics on this matter may be also provided by the income tax authorities.

<sup>2</sup> I hope no one will be so foolish as to claim that this spot of elementary cost accounting with other spots to follow will make banking too complicated. Actually the accounts of banks are among the simplest known. They are in fact extremely simple compared with the cost accounting practices of the engineering and other trades.

<sup>3</sup> A further point here is that too high a price for goods in a given branch of industry with a socially equitable dividing up of the goods produced by that branch may also lead to excessive savings. When this occurs the remedy is a reduction in the price of the goods.



11. *The maintenance of an open currency*

Currency notes are printed by agreement with the State, and the banks can obtain through the Bank of England as much currency as they can give security for up to an amount called the fiduciary issue. This is fixed by the Treasury in consultation with the Bank of England. The banks obtain their securities directly or indirectly from industry, and so industry can actually have as much currency as it can adequately secure. That is, which it can guarantee to return in due course to the banks. This delightfully simple procedure has been made to appear both mysterious and complicated by the variety of the securities which are acceptable for this purpose, and the legal formalities associated with them.

The placing of securities with banks in order to obtain the currency necessary to distribute goods which have been produced actually amounts to nothing more than an expression of confidence in the saleability of these goods to the extent of undertaking to refund the amount drawn should the goods prove to be unsaleable. There should be clearly no limit to the currency made available in this way, provided always that equivalent goods exist. That is to say, the currency should be an open one subject to adequate safeguards against drawings which are not backed by goods.

The maintenance of the goods-currency balance by the procedure we have built up, however, makes quite unnecessary the depositing of securities with the banks for currency except when the saleability of the goods to be distributed is in doubt. This applies to the early stages in the building up of a new undertaking with new products, but only to a limited extent to well-established undertakings of all kinds whose products are in steady demand. Moreover, this position is doubly secured when the supply of all commodities is balanced against the demand by the procedure we have devised for the effective application of labour power. Doubly secured because over production cannot occur, and because any change in public taste for particular commodities can be readily accommodated. The question which appears to arise here in maintaining an open currency is how to distinguish between a demand for new currency to distribute new *additional* goods, and a demand for new currency to distribute new goods which are simply replacing an older brand of goods of the same class. The



former case requires *additional* new currency ; the second not.

When a firm manufactures certain articles it at once distributes the greater part of the cost of producing them in wages and salaries and in payments for raw materials. That is to say, each firm distributes claims to goods equivalent almost to the whole output of the goods it has produced. When new goods displace old, the makers of the older variety quickly find themselves faced with a falling demand. Their demand for currency thus falls as the demand for the new variety increases. If a firm becomes bankrupt owing to this process the same result is obtained, but the fall in the demand for currency is spread over more manufacturers and distributors. It follows from this that the demand for currency will vary automatically to compensate this factor, and so it is only necessary to distinguish fraudulent from honest demands for currency accommodation. This is already a normal function of banking institutions everywhere. And, by this procedure the government would supply currency through the banks equivalent to the commodities produced without placing a permanent burden of interest charges on an equivalent amount of false capital.

## 12. *The collection and redistribution of the currency required for public works*

A further function of banking is the collection and the redistribution of the currency required for public works.

It is for the government of a people to decide what proportion of its labour power shall be devoted to public works. This amount will tend to increase as the productivity of industry increases and the primary wants of the people are more fully met. It can be taken as axiomatic in a modern industrial civilisation, that if no labour is employed upon public works, it will be impossible to find work for everyone to do without greatly shortening the present average working day. The problem of finding a job for every worker when 'peace is declared', is thus seen to be a question of proceeding with planned public works until the whole of the labour available is fully employed.<sup>1</sup> When this has been done, and a balance has been struck between the labour engaged in the production of consumers' goods and of public works, it will then

<sup>1</sup> The need to do this can be avoided, of course, by maintaining conscription and a large Army, Navy and Air Force.



be the responsibility of the government to maintain this balance in such a manner that there is no unemployment. In the initial changeover the proportion of the labour of the country devoted to public works will tend to reach a high level,<sup>1</sup> but as industry gets fully into stride again labour will be transferred from public works to the manufacture of consumers' goods, and the standard of living will rise until arrested by government decision. Incidentally, it is in the holding of this balance that the final step is taken for the abolition of unemployment.

The transfer of money to and of disbursements from the public works fund is a matter for the government, the banks carrying out the actual collection and distribution of the money. The basis for their distribution is clearly, harbour works, reclamation of land, afforestation and the like, followed by certain minimum cultural amenities for every section of the community. The cost of collection and distribution being borne by the communities receiving the immediate benefit of them; that is, there would be in certain cases a banking charge, to be paid for out of local rates and not out of the public works fund. The maintenance of such works would be also a charge upon the local authorities for the area served.

It will be observed that labour power is balanced between consumers' goods and public works to a limit fixed by the labour available and the demand for consumers' goods, and that when this is done there will be no idle hands and no idle money.

The application of this procedure to the collection and redistribution of the currency required for health services, disablement allowances and pensions; and also for the civil service and defence, is logical and straightforward.<sup>2</sup> The sums allocated to these various funds should, however, be kept distinct and strictly within authorised limits.

### 13. *The determination of the rate of exchange of different currencies*

It is not sufficient to provide a stable currency for a community, as equally stable rates of exchange are required between the cur-

<sup>1</sup> Don't forget that for this purpose the maintenance of a relatively large army would rank as public works, or for that matter a greatly extended civil service, but only at the price of a lower standard of living for everyone.

<sup>2</sup> These transfers would be clearly on current accounts in both the primary and the secondary circulations.



rencies of different countries if international trading is to be rightly conducted. The starting-point for this is the balancing of internal currencies against the goods produced through scientifically operated banking systems. When this is done the rates of exchange of different currencies can be equitably determined as indicated in Chapter XIV, § 10.

### 14. *The remuneration to be allowed to the banks*

There is no reason why those engaged in banking should be an exception to the general rule of like wages, salaries, fees and dividends for like services to the community. The difficulty here is that there is no normal standard of production to which the four minima can be attached, and no apparent standard of high output which will provide a basis for the construction of bonus scales. At present bankers make such charges for their services as they can reasonably cozen out of the community, and their prosperity does not rise and fall with that of industry. This fact gives us a clue to a possible procedure for fixing the equivalent of the four minima for banking.

Suppose now that part of the cost accounting system of the banks includes the observance of a separate column in all their accounts for the dividends of public companies, and further, that since the banks serve all alike they are in equity entitled to share in the general level of prosperity for the whole country. In these circumstances the dividend rate for banks should be the average rate for the whole of industry, and wages, salaries and fee levels could be arranged to correspond. Incidentally, this is clearly the only basis to which industry could agree in a logical industrial civilisation.<sup>1</sup>

### 15. *Banking days*

With this system everyone in business must have a banking account, and since the essence of the whole system is one of balance, it is desirable that there should be banking days for the clearing of accounts in particular trades and industries. This will also spread out the work entailed. Monday for example, would appear

<sup>1</sup> The four minima also need agreement with industry in order that the requirement of like remuneration for like services to the community shall be observed.



to be a good day for butchers, greengrocers, wholesalers and merchants generally. The accounting year could be also advantageously divided up by statute into thirteen months of four weeks, as this would facilitate statistical and accounting comparisons of all kinds.

## 16. *Summary*

It may be an advantage at this point briefly to summarise the proposed developments in banking.

The common welfare demands that the medium for the distribution and exchange of goods shall be an honest currency, and in order that this can be secured, the right to buy and sell is subject to a licence which imposes the following duties :

- (1) The use of a banking account and payment, for all raw materials, partly finished goods and finished goods for resale by cheques, which shall be not-negotiable and payable only through a banking account.
- (2) The payment of all currency received into a bank, except in the case of small businesses.

The penalty for deliberate disregard of these duties would be the permanent withdrawal of the right to trade.

Currency is drawn from the banks against goods as they are produced. The standard for currency is labour and the proposed unit is 10 pence per factory man-hour. This is a purely arbitrary standard and is derived from the operations by which it is measured. These operations have to be performed with any industrial system whether it is based upon private or social enterprise, or both, and they are made effective through a system of banking. The holding of this goods-currency balance by the banks involves the maintenance of a savings balance ; i.e. savings withdrawn in any period must balance spare-money laid aside or invested in the same period. And, when new savings exceed withdrawals from savings steps must be taken to increase the purchasing power of an appropriate section of the community to restore the balance.

An open currency must be maintained. That is, the currency must at all times balance goods as they are produced at the prices paid for them whether the total output rises or falls. The procedure



devised to do this incidentally causes the country to provide the currency for the distribution of all commodities *for which a firm demand exists*, and so removes one of the major sources of the accumulation of false capital which has served seriously to retard and now threatens to wreck the development of our industrial civilisation.

The banking system is also concerned with providing the currency required by social enterprise under the authority of the government. For this the banks make a direct charge upon industry, so that social enterprise is financed socially, whereas private enterprise is financed privately. This also removes another major source of unjustifiable and utterly false capital accumulations.

This scientifically operated system of banking finally provides the basis upon which an internationally sound and equitable foreign exchange can be operated.

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## CHAPTER XV

# AN ECONOMIC FEDERATION OF STATES

### 1. *On economic science*

IT has been said that to make the study of economics conform to scientific method it is necessary to lay aside abstract definitions and apply the operational approach. What does currency do? How are commodity prices actually determined in commerce? What do bankers do, and what practical effect has what they do upon what is done in commerce and industry? What happens when people save money? What would happen if everyone spent all the money he received? Then to observe what actually happens when men and women divide up the work to be done in order better to provide themselves and their dependents with food, clothing, and the necessities of life, and proceed to inferences and to general rules if they can be found.

This is what we have been doing throughout this inquiry. In doing so we have passed over all those elaborate and incongruously abstract definitions of money, currency, value, capital, banking, free trade, protection, and so on, which have characterised the '*Principles of Economics*' for so long. And, we have built up a system of conduct on moral and scientific foundations which provides a solution to the major problems which arise in the direction of the industry of a civilised community.

These are :

- (1) How to honour the right to work of everyone.
- (2) How to operate an open currency so that a goods-currency balance is continuously maintained, and the currency required to distribute the goods produced does not lead to accumulations of wholly false capital which act as a brake on production.
- (3) How to divide up the goods produced in a socially equitable manner between the wage earners, the management and the shareholders of any given undertaking by agreement, followed by such adjustments as may be dictated by the observance of the safe limit to savings.



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- (4) How to divert any desired proportion of the labour of the country to public works without creating an accumulation of wholly false capital, or, put in another way, without giving one part of the community a 'financial advantage' at the expense of the rest.
- (5) How to keep the supply of commodities equivalent to the demand for them with a system actuated by consumer demand. This to maintain conditions which alone can secure a basic price for commodities when they are taken to the market.
- (6) How to distinguish true capital from false.
- (7) How to provide for the maintenance of true capital.
- (8) How to prevent false evaluations of the worth of capital.
- (9) How to operate a true system of free-trading between countries with totally different standards of social services.
- (10) How to determine scientifically the rate of exchange of different currencies.

In Chapter II, § 4 we defined political economy as a system of conduct and legislature founded upon science. We can now state this more fully as a system of conduct and legislature based upon the observed and proved results of given lines of conduct, or of given procedures, within the limits of obtaining economic security for everyone with the minimum possible interference with the freedom of the individual. The science of public economy, or, more briefly, economic science, is thus concerned with :

- (1) The procedure by which the right to work of everyone is honoured. This requires :
  - (a) The maintenance of a goods-currency balance through a scientifically operated banking system.
  - (b) The balanced division of labour power between public works and consumers' goods.
  - (c) The observance of the safe limit to savings.
- (2) The holding of a balance between the demand and the supply of commodities in such a manner that a socially fair or basic price can be obtained for them.



- (3) The holding of a balance between exports and imports. This requires the setting up of foreign exchanges and an international exchange.

## 2. *The national income*

In a statistical sense economic science is concerned with the national income, and as a science it can be most effectively developed from a statistical analysis of the national output in terms of income. Unfortunately, reliable statistics relative to the national income do not exist, in fact there are no means of ascertaining what the national income is in a scientific sense. Notable estimates have been made by Professor Bowley and the late Lord Stamp, and also by Colin Clark,<sup>1</sup> but before any real progress can be made the method used for its determination must be standardised.

What is the national income? In this inquiry the national income appears as the sum total of all the goods produced in a given period (usually one year) expressed in terms of the currency paid for them.

This figure is the total currency issued to manufacturers and distributors over the period in question. It will be observed that this includes :

- (1) All commodities made during the period against which currency has in effect been drawn, and that they may not necessarily have been distributed.
- (2) Work done on public works whether completed or not.
- (3) Professional fees, rents, insurances (including national assurance), and all other expenditure which is included in the prices paid for the goods produced.
- (4) Exports and the transfers to the public works fund from shippers' and importers' accounts.

It does not include :

- (1) Professional fees and insurances, etc., which relate to the secondary circulation.
- (2) Secondary exchanges of goods by the secondary circulation.
- (3) Goods transfers ; i.e. of raw materials and partly finished

<sup>1</sup> *National Income and Outlay*, by Colin Clark.



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goods to manufacturers, or of new goods to wholesalers and to retailers.<sup>1</sup>

That is to say with the scientific banking system outlined the currency drawn by manufacturers and distributors of new goods in a given period is the measure of the national income for that period.

There is the question of money brought into the country. This falls into two categories :

- (1) Money from investments abroad. This must be imported as gold or be allowed to increase the sums available for the purchase of goods in the countries of origin. That is, it reduces the exports required to balance imports by this amount, or put in any other way it reduces the quantity of goods to be exported ; i.e. equivalent goods are retained in the country, so this factor is accounted for.
- (2) Money brought in by tourists. This also reduces the quantity of goods to be exported, and must be taken into account by the Foreign Exchange. The Foreign Exchange must therefore be kept posted with this item.<sup>2</sup>

The economic science here visualised incidentally provides a rational basis for scientific research into the material resources available to meet fundamental human needs.

### 3. *A statistical audit*

If a true science of economics is to be developed we need in addition to the national income what might be termed an annual statistical audit of the economic system.

The national income from industry can be divided up into branches by the banks, and the Joint Industrial Councils can provide the man-hours worked in them. From these data, factory man-hour or currency rates can be obtained as a guide to the efficiency of individual factories, and individual distributories, and to how

<sup>1</sup> Importers are buying raw materials or finished goods like other merchants, and so the payments for them rank as payments by goods cheques in the internal economy.

<sup>2</sup> This means that sums brought into the country by tourists and also taken out by them must be declared.



their currency rates stand in relation to the efficiency of the particular branch of industry in which they occur taken as a whole. Some will be below the standard and others above it. This is the logical starting-point for effecting systematic improvements in both production and distribution. The banking system can also supply details of the distribution of the national income. From the goods cheque transfers, expenditure upon raw materials and partly finished goods (manufacturers' accounts) can be obtained, and expenditure on distribution (distributors' accounts) also. And the relative numbers of persons engaged on manufacture and distribution will be known to the Ministry of Labour for each industry through the Joint Industrial Councils.

The secondary circulation can be also analysed in a similar manner to obtain details of the distribution of the national income. A difficulty here is that professional fees and the like may originate in either the primary or the secondary circulations. It is therefore desirable that payments of this kind from the primary circulation (which are included in commodity prices) should be by a currency cheque which can be distinguished from the currency cheques normally used in the secondary circulation. In practical terms, the currency cheques used by producers and distributors should be of a different design; i.e. readily distinguished from currency cheques used by businesses in the secondary circulation and by private individuals. They could of course be the not-negotiable goods cheques. This would enable the banks to distinguish these items in their accounts<sup>1</sup> and so enable a true distinction to be made between the two circulations in the distribution of the national income. It is also vital to government that the actual proportion of the national income expended upon public works should be known. The public works fund covers this requirement.

Taxation for the carrying on of government is part of the secondary circulation, and the national budget is thus seen to be a subsidiary account of the national income account. A point here is that under no circumstances must the public works fund be

<sup>1</sup> Two columns would be used for deposits in secondary circulation accounts, one for sums originating in the primary circulation and one for sums originating in the secondary circulation. With manufacturers and distributors two columns would be used for 'withdrawals' one for goods cheques and one for currency withdrawals.



other than under the control of the banking system, and there must be no transfers for purposes other than public works.<sup>1</sup>

The Foreign Exchange will clearly provide equally important statistics, and complete the statistical basis for the development of a true science of economics.

#### 4. *Profit out of war*

The great majority of the people in this country are united in the demand that no-one shall be allowed to make a profit out of war, but the lack of order in the monetary arrangements and in the control of currency and of prices, does not allow the effective application of this principle. It is true that a tax of 100 per cent was imposed upon excess profits ; but the following considerations show that this measure alone could not effect the object under view.

A and B each have an income of 1,000 pounds each year in times of peace. In times of war the yearly income of A is reduced to 500 pounds and to secure this he has to reorganise his business and second members of his staff and workpeople to the works of B. The productivity of this group thus continues and the 'earned' income of B is increased by 500 pounds each year that the war lasts.<sup>2</sup>

The country calls for sacrifices. Half of the normal income of A has been already sacrificed for A by a change in the economic conditions which has left his rent unchanged, increased his cost of living, and imposed additional local rates and taxation upon him. On the other hand B is so placed by the same forces that he is able to decide for himself the extent of his sacrifices and the form they shall take. We will assume that he decides to use only his normal income each year and to meet out of this the increase in the cost of living and in taxation by changes in his domestic economy.<sup>3</sup>

B thus finds himself with a surplus of 500 pounds each year which the war has switched to him from A by circumstances for which neither of them is in any direct way responsible. But B is

<sup>1</sup> I have in mind here the one-time manipulation of the Road Fund by the Treasury.

<sup>2</sup> B explains this by saying that his income has increased in proportion to the increase in his responsibilities. A knows that all his fixed responsibilities have doubled, although his income is halved.

<sup>3</sup> There is in this respect something heroic about B.



in business for what he can get out of it<sup>1</sup> so he lends his surplus income 'to defend his right to be free' *to be in business for what he can get out of it*, and is rewarded for his 'patriotism or abstinence'<sup>2</sup> by an annual award of three pounds for each 100 pounds he allows the state to spend for him upon this 'admirable' object.<sup>3</sup>

In due course, peace is declared,<sup>4</sup> the two businesses revert to normal and between them A and B have got to find in taxes the three per centums per annum which constitute B's reward for handing on to the state A's loss of income. The net result of this is that A has to find each year one pound ten shillings for every 100 pounds his total income was reduced over the whole period of the war, and this appears as a permanent addition to the annual income of B.

The war thus effects a permanent change in the distribution of income between A and B such that A must continue to contribute a permanent increase to the income of B, owing to the complete absence of reason in the monetary arrangements, unless the procedure is reversed after a war.

Can this procedure be reversed? It cannot with our present monetary arrangements, but it can with the monetary system this inquiry has revealed. With the present arrangements the repayment of huge loans cannot be effected because the taxation required to do this in the years scheduled for its repayment would reduce the standard of living of the people as a whole to an intolerable degree in those years. Moreover, the individuals receiving the repayment of their loans would be under no obligation to spend the money, and since taxation transfers claims to goods *which already exist* to the government, and repayments of loans by the government passes on these claims to goods to individuals, the refusal to exercise these claims would cause either a general collapse of commodity prices, or unemployment. In practice, both would occur in varying degrees in different industries and localities.

<sup>1</sup> I have often been told that only fools go into business for any other reason, and B is not a fool.

<sup>2</sup> Really an eye for gain and unmitigated luck.

<sup>3</sup> This had a tendency to become a predominating war-aim whether we like to think so or not.

<sup>4</sup> If the state of affairs of 1919 is to be reproduced, this would be more accurately described as a truce on the killing of other nationals to stop them from exercising the deplorable lack-of-principle involved in going into business on us *with violence* for what they can get out of us.



With the monetary system we have built up, the refusal to exercise these claims by individuals would result in an excess of savings over withdrawals from savings, wages would be increased proportionally to correct this, and the purchasing power of the country thus maintained. In other words, capital remuneration in general would be proportionately reduced. It would, however, be necessary for the banking system to adhere to the amount for savings deposits established before the repayment took place, or savings could be increased by half the amount of the loans repaid. Actually, war loans should be repaid systematically year by year out of taxation. The amounts should not be normally repaid in one instalment,<sup>1</sup> but at a rate of repayment calculated to effect a reversion to the original pre-war position. When there is no unemployment and adequate pensions are assured for everyone, there can be no reasonable objection to this procedure.

#### *5. What happens when a war is paid for by borrowing*

When a government borrows spare-money to build battle-ships, tanks, aeroplanes, and equip armies it increases the national output only in the year in which these things are produced; for none of these things produce any addition to the national income in any year which follows. They are instruments not of production but of destruction. This means that armaments must be paid for as they are produced and then written off. In other words, they are products of social enterprise like public works, and they should be financed in the same manner. If this were done everyone would pay his fair share of the cost and that would be the end of the matter. True private enterprise would not be interfered with in any way, but no-one would be allowed to take advantage of a national emergency to 'line their pockets' at the expense of the community as a whole.

When spare-money is loaned to the government and spent upon armaments, this money is backed by the armaments it represents and not by anything else, so that when these are destroyed the money represents precisely nothing, and in fact is only worth the paper it is made of. But, because private enterprise rightly applied in industry is productive year after year, it has been un-

<sup>1</sup> Some could be of course.



justifiably assumed that loans expended in this way are productive also year after year. The Germans knew that this was true, and therefore that it is a waste of time to take money or loans out of a country; you take the goods (including gold) which the money represents and the money is then worthless. Also, you do not take share certificates, but the machinery of production they represent and with them the labour to work the machines. The stocks and shares are then worthless.

Germany paid for the war as she went along, and strengthened her war effort by goods and labour taken from the countries she conquered. The German political economy must have been therefore effecting in some measure the main points established in this inquiry.<sup>1</sup> These are:

- (1) No idle labour.
- (2) No idle money.
- (3) A standard of living which allows the greater part of the labour of the country to be devoted to the production of armaments.

### *6. Paying for war*

How would this political economy operate in time of war? Quite simply. Labour engaged upon public works would be transferred as quickly as possible to armaments, and with the labour would go the public works fund to 'finance' the production of these essential materials, and the extension of the fighting services. At the same time other industries would be changing over to production for war, and to meet these costs the public fund would be increased by increasing the transfers to this fund from industry not engaged upon armaments. There would be an all-round increase in the hours of labour, for the producers of essential goods such as foodstuffs would be called upon for their maximum production rate with decreased staffs. The transfers to the public works fund or war chest would steadily increase and the price of all commodities would be allowed to increase only strictly in proportion to these demands.<sup>2</sup> This would mean that the goods

<sup>1</sup> The same observation applies to the U.S.S.R.

<sup>2</sup> What an utterly simple price control this makes for.



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produced for consumption would be equitably distributed over every section of the community. The war would thus be paid for out of income,<sup>1</sup> except for the sums represented by the transfer of stocks of gold (as goods) abroad *plus* the sale of foreign investments to make up the deficit between imports and exports, if trade agreements could not be maintained with friendly powers on the true free trade principle.

We actually paid for the war as we went along to the limit of the labour power we had in employment, but we effected the transfer of money to the war chest principally by means which add to the 'institution' we call the national debt. The sums involved were however so large that this procedure became inadequate and the principle of compulsory saving had to be introduced.

Compulsory saving for all classes in proportion to wages or income was suggested by J. M. Keynes. If this had been done upon a scale sufficient to transfer the requisite proportion of the purchasing power to the government, the payment of interest would have automatically cancelled itself out. That is to say, if we all save the same proportion of our incomes and hand these sums over to the state and the state in return promises to pay us interest at three or any other percentage per annum upon them, the interest payments will be met by taxing us all in proportion to our wages or incomes and handing these taxes back to us as interest. That is, there is no point in interest at all except it be paid only to a limited section of the community, when it effects a transfer of extra money into the pockets of the few from the pockets of the many. Compulsory saving thus clears the major difficulty of the payment of interest upon unproductive investments; but it leaves the loans to be paid back out of taxation,<sup>2</sup> and as these are also proportionate to incomes the whole matter cancels out.

We thus see that this political economy is a true one. It will

<sup>1</sup> President Roosevelt at one stage during the second world war wrote: 'We must take steps to absorb a large amount of purchasing power through additional taxes and incidentally to pay cash for the greater part of our defence production . . . I very much fear that unless we start within two or three months to withdraw the larger part of the national income by taxes *an even greater part* may evaporate by inflation, and the upward spiral may gain such momentum that it will be difficult to regulate despite all efforts through price control and similar measures.' The need for a rational, practical and equitable solution to this problem is obvious.

<sup>2</sup> It cannot be paid back in any other way because you cannot honestly distribute claims to goods when there are no goods to claim, and there are goods available only when some of the claims to them are collected by the state. This is taxation.



function equally well in times of peace and war.<sup>1</sup> Moreover, it provides completely satisfactory machinery for a changeover from peace to war, or vice versa, and is therefore right for a period of reconstruction.

### 7. *Inflation*

When more currency is issued than is required to balance goods as they are produced at the prices paid for them,<sup>2</sup> the currency is said to be inflated. The term is appropriate as it is truly 'blown-up' with nothing more substantial than wind. On the matter of inflation a modern economist has written: 'Since the government controls the issue of currency notes, it possesses powers which are dangerous to the community. By issuing currency notes the government can continuously expand the total of "incomes", leading to a corresponding and continuous rise of prices. This happened all over the world, during the last war and after it. It is happening now. In Germany it was carried to the point where prices rose to a level one million million times as high as in 1914. Such a practice has disastrous social effects. People living on fixed incomes see the worth of their savings destroyed. Wages rapidly become inadequate. The needs of the family cannot be met. Wages rise belatedly in an endeavour to keep up with the rise in prices. Debts are paid in 'cheap' money and there is as a consequence a colossal redistribution of wealth from creditors to debtors. Public loans are repaid in money which has lost its worth in exchange.'

You may ask why a government should adopt such a procedure. Well, when a government has exhausted all the funds it can obtain by taxation and borrowing, and there are goods (like armaments) which it must have at once, the issue of notes provides the means. In a world in which economic ideas are as nebulous and unpractical as they are today, when people believe that you can make armaments, destroy them, and still have claims to goods (money)

<sup>1</sup> It is essentially a distributory organisation and therefore should be capable of distributing anything.

<sup>2</sup> According to a statement by J. M. Keynes, we were in December 1941 issuing 16 million pounds in currency each day, against available goods equivalent to 12 million pounds per day and the problem of collecting the surplus 4 million pounds per day to secure a balance was being dealt with by voluntary and compulsory saving.



equivalent to them ; that is, both have their cake and eat it, inflation is bound to occur. The late Lord Stamp wrote : ' War is urgent, compelling beyond all human imagining ; and even after the war the burdens of the State are real. Inflation creeps in by a hundred ways ; it is an immediate remedy ; it often requires no permission, no Acts of Parliament ; and the psychology of the governed and the Government all lead direct into inflationary paths. But, as we have seen, having once got on to a scale of expenditure through inflation, it has to be repeated after a time to secure the same results. You are helpless to stop yourself ; it is like running downhill—beyond a point you either go faster and faster, or fall over ! It is easy enough to *say* that inasmuch as a war can only be fought by current production, it should all be done by taxation alone—it is quite another thing to *do* it.'

It is quite another thing to do it, and the fact of the matter is that it is quite impossible to do it with our present monetary system and the false sense of economy which has grown up with it.

### 8. *The National Store and the National Debt*

The end of the second world war has left us with a national stock of both productive and destructive goods and machinery. This inquiry indicates that there should be a branch of the national store devoted to the keeping of such of these things as can be maintained in a serviceable condition to set off against the national debt. They should not be unloaded into the home or any other market, except in such a manner that they either relieve exports or speed up production.

The national store also provides an essential part of the machinery required for the liquidation of national debt when incurred by war and for the maintenance of steady prices for imported raw materials. In time of war, it would be an essential part of the machinery of rationing ; that is, of the arrangements to withhold goods from the market which would otherwise tend to interfere with the established price levels.



## 9. *This political economy and industry*

If I were asked what would constitute an ideal world for an *honest* man in business I would reply :

- (1) One in which for every poundsworth of goods there was exactly one pound of currency available with which to purchase them.
- (2) One in which there were no fluctuations in the worth in exchange of the pound.
- (3) One in which all contributory costs in commodity prices could be ascertained with reasonable accuracy. This to include raw materials.
- (4) One in which the rising standard of our social services did not serve to open our markets to cheaper priced foreign goods.
- (5) One in which government control of industry was at a minimum and in which the control exercised was wholly beneficent in its effect upon honest industry.

The political economy we have visualised will achieve just these things, and at the same time abolish industrial competition of the type of two dogs for a bone ; that is, it will give security to everyone in return for honest labour.

A worker's ideal for industry, is congenial employment which will sustain him and his dependants in reasonable security throughout his working life, with an adequate pension in old age, and an adequate disablement allowance if he should be disabled. The political economy here outlined would achieve this for every worker in the state, and no distinction would be made between employers and employed in this matter.

## 10. *On reconstruction*

In a period of reconstruction such as must inevitably follow a war, the war chest could be stepped back through systematic reconstruction to become once again a normal public works fund. In other words, this political economy is applicable to war or peace without modification. It can be switched from one to the other just as quickly as Joint Industrial Councils can transfer the labour



to new tasks. Also, the public works fund is at once the right way to provide currency for the building up of bombed cities and towns without adding an intolerable permanent addition to taxation such as follows reconstruction by borrowing.

## II. *Reparations*

When it is realised that money is only a medium for the distribution and exchange of goods, it at once becomes apparent that countries can only pay for wars by labour; i.e. by goods. And that the limit to the manufacture of war materials in any country is fixed by the number of persons required to produce essential food, clothing and other necessities for the population. Thus, if 20 per cent of the workers in a state can secure the necessities of life for everyone, then the other 80 per cent can produce armaments. After this point is reached a country cannot however buy armaments abroad except by the export of goods from stock (including gold) or by selling its foreign possessions, because it has no labour left with which to make goods for export. Put in another way, if such a country exports goods to purchase more than vital supplies of raw materials, it is (in effect) purchasing armaments abroad which it should be making for itself, provided it commands the knowledge and skill necessary to produce them. Hence, if at this stage a country has not the weight of armaments required to defeat the enemy, then all that can be done is for friendly countries to 'lease or lend' to her the extra supplies she needs. This was broadly our position during the war.

Germany developed an internal economy which indicated an awareness of the main fundamental principles this inquiry has disclosed. It would not be therefore surprising if it were to be found that it was calculated that with our population and standard of living it would be impossible for us to compete in armaments with them, and that therefore Germany could not help but overwhelm us.

There can be no doubt that Germany was ahead of us in economic science and that this was, in effect, one of her secret weapons. It was in fact probably the most powerful weapon she possessed, for the leading Germans must have felt secure in the fact that even if they lost the war, we could not with our present



political economy make them pay for the damage wrought by them without at the same time wrecking our own internal economy. But this inquiry has shown that when currency balances goods as they are produced, and a balance is maintained between consumers' goods and goods which belong to everyone (public works) such that there is no unemployment, it is possible to say at once what effect reparations would have upon the internal economy of any country. Thus: gold can be accepted into a national store to rank as goods in stock. But there it must stay, as the U.S.A. have found, and it must not be allowed to have any bearing whatever upon the internal economy of the state. The problem raised by accepting reparations in other goods is how to issue currency to distribute them without affecting adversely the home markets. The first point here is to whom these claims to goods are to be distributed. Reparations are actually repayments of expenditure upon the war. They are therefore repayments of national debt when incurred on this account. If therefore these reparations are received into a national store and then transferred to the market simultaneously with equivalent repayments of national debt, the process by which the national debt was built up will be reversed. Here then is the starting-point of a method by which a proportion of the national debt might be liquidated, for there will be obviously a limit to its effective application.

*Consumers' goods can therefore be accepted into the national store and then transferred to the home market and distributed by repayments of the national debt. The goods issued and the repayments must however balance at all times.*<sup>1</sup>

If reparations are taken in materials normally imported in the home shipping from other countries, the goods must be carried in the home shipping, or shipping will suffer a loss, and the shipping must be also compensated if by reason of accepting these goods its work is curtailed. Materials can be accepted for use in the reconstruction of devastated areas, if by so doing the labour available can be more quickly put to work. The Joint Industrial Councils will however need to exercise very careful supervision of this matter if they are not to be left, when these supplies are finished, with labour which cannot be quickly and satisfactorily transferred

<sup>1</sup> There will be a definite ascertainable limit to the rate at which this procedure can be followed in order that the home market shall remain unaffected.



to the manufacture of these materials. *The currency issued for the distribution of them should again be indirect and through systematic repayment of the national debt.* Machinery of production and ships can be taken to replace machinery and ships destroyed, but only to the extent where it has no adverse influence upon employment in the machinery and shipbuilding trades. Again, currency issued for the distribution of these items should be indirect and through systematic repayment of national debt.

There is then a method by which to handle reparations which will not affect adversely the internal economy of a country, and it is therefore practicable to repay some part of a national debt incurred on account of war, out of reparations. The limits are determined by the requirement that there must be no adverse effect upon the internal economy. These limits would be known if the monetary system we have outlined was being used.

### 12. *The discharge of the national debt due to war*

But you may say, what about the colossal national debt which cannot be repaid in this way, and which if it is to be discharged at all must be repaid out of taxation. Accepting without question the fact that it must be sooner or later repaid, let us examine how this might be done.

Suppose now that the right to work is being honoured with adequate sustenance when unable to work and an adequate pension when too old to work for everyone. In short, that economic security has been obtained for the whole people. Now let us examine this matter. The national debt due to war consists of promises to repay sums of money which have been loaned to the state and which have been spent by the state. These loans have been made by institutions and undertakings of many kinds, and by individuals. They may be classified as follows :

- (1) Savings against old age and infirmity or to provide for children and dependants.
- (2) Loans made for the purpose of building up a monetary reserve against 'bad times', with interest payments as a secondary consideration.
- (3) Loans made for the express purpose of putting money out at interest.



All these loans have been made to the state in the belief that they would serve the purpose the investors had in view. But, since they were made, the country has found out how to give to everyone economic security, and in doing so it has placed itself in a position to view the national debt as something which has to be discharged in a manner which will not prejudice this position.

The first of these classes can be subdivided into persons who have reached the retiring age and those who have not. For those who have not, the war loan stock presents part of the provision they have made for their old age and retirement. Why not then convert these sums into annuities for this purpose. That is, let these investors enjoy a normal pension in old age *plus* an annuity corresponding to their investment, but no interest meanwhile. Those who have already retired could be also given an annuity to discharge this account. There are two things to bear in mind when considering this procedure :

- (1) That pensions are not a gift to the workers of the country by the state, they have to be earned. In the language of today they are compulsory savings which are collected by the state to be disbursed in due course to those who have provided them, and no interest is paid upon these amounts.
- (2) That pensions in this view include full provision for a widow and dependants, and since every child reaching a certain age will be guaranteed the right to work with adequate sustenance when unable to work and a pension when too old to work, there will not be any justification for parents saving large sums for their children.

The remaining classes of investments may be divided up into the reserves of industrial undertakings of all kinds, and money-lending. Taking the first of these. They are essentially reserves against post-war slumps and reconstruction. Very well, let us treat them as such. The first point here is that if unemployment is abolished in the manner described, and a goods-currency balance is maintained, there can be no slumps. Such a state can afford, and I have no doubt whatever that industrialists would be willing, under these conditions, to see these sums treated as a state insurance against slumps over a reasonable period of time. Withdrawals



could be allowed for post-war reconstruction made necessary by the ravages of war, or for making good excessive wear and tear of plant.

Consider now loans by the banks. When the banking system is rationalised and operated scientifically, the payment of interest on war loan stock to banks becomes nothing more than an indirect charge upon industry for services rendered. And, if the banks are to share in the prosperity of industry in the manner outlined, it is of no consequence to them whether their charges are direct or indirect so long as they are met. Given this state of affairs, and the security of a goods-currency balance, it should not be a difficult matter to simplify this piece of accountancy and dispose of this part of the national debt. This would leave loans by moneylenders which would need to be systematically repaid out of taxation. We must, however, bear in mind that these sums, either directly or indirectly, should be in due course, on moral grounds, subject to death duties designed to correct 'excessive capital accumulations' of this order.

## 13. *The national indebtedness to H.M. Forces and compulsory saving*

The principle of compulsory saving if applied fully and equitably to the civil population would clearly have the effect of transferring to the state all the purchasing power which the state could have. But the armed forces of the crown may be in effect subjected to a compulsory reduction in their purchasing power, compared with the civil population, without any compensatory arrangement comparable with 'compulsory savings', being made for them.

This issue is obscured by the fact that the compulsory savings of the civil population are spent upon the maintenance of the defence forces, and the lower the amount required to do this effectively the larger the number of persons who can be so employed and the greater their numerical strength. It has been therefore the practice to keep all payments to H.M. Forces at a minimum, *but this minimum should not lead to a lower standard of living for their dependants than that for other comparable citizens.*

Assuming that this is done, the fact still remains that the men serving in H.M. Forces are in social equity entitled to be credited with compulsory savings of like amount to comparable members



of the civil population, when peace is declared. This is the justification for war gratuities to members of the forces in proportion to their periods of service. A fact which calls to mind the need for a clear understanding of the true functions of the professions and of manufacturers and distributors in the body politic. These have been clearly stated by John Ruskin substantially as follows.

14. *The position of manufacturers and distributors or of merchants in the body politic*

‘ There are five great professions relating to the daily necessities of life in every nation.

The soldier’s profession is to *defend* it.

The pastor’s to *teach* it.

The physician’s to *keep it in health*.

The lawyer’s to *enforce justice* in it.

The merchant’s (including manufacturers) to *provide* for it.

And it is the duty of all these men, on due occasion, to *die* for it.

The soldier rather than leave his post in battle.

The physician rather than leave his post in plague.

The pastor rather than teach falsehood.

The lawyer rather than countenance injustice.

The merchant—What is his “due occasion” of death?

‘ It is the main question for the merchant, as for all of us. For, truly, the man who does not know when to die, does not know how to live.

‘ Observe, the merchant’s function (or manufacturer’s) is to provide for the nation. It is no more his function to get profit for himself out of that provision than it is a clergyman’s function to get his stipend. The stipend is a due and necessary adjunct, but not the object, for his life, if he be a true clergyman, any more than his fee (or honorarium) is the object of life to a true physician. Neither is his fee the object of life to a true merchant. All three, if true men, have a work to be done irrespective of fee—to be done even at any cost, or for quite the contrary fee; the pastor’s function being to teach, the physician’s to heal, and the merchant’s, as I have said, to provide. That is to say, he has to understand to their very root the qualities of the thing he deals in, and the means of obtaining or producing it; and he has to apply all his sagacity



and energy to producing or obtaining it in perfect state, and distributing it at the cheapest possible price where it is most needed.

‘ And because the production or obtaining of any commodity involves necessarily the agency of many lives and hands, the merchant becomes in the course of his business the master and governor of large masses of men in a more direct, though less confessed way, than a military officer or pastor ; so that on him falls, in great part, the responsibility for the kind of life they lead ; and it becomes his duty, not only to be always considering how to produce what he sells in the purest and cheapest forms, but how to make the various employments involved in the production, or transference of it, most beneficial to the men employed.

‘ And as into these two functions, requiring for their right exercise the highest intelligence, as well as patience, kindness and tact, the merchant is bound to put all his energy, so for their just discharge he is bound, as soldier or physician is bound, to give up, if need be, his life, in such way as it may be demanded of him. Two main points he has in his providing function to maintain : first, his engagements (faithfulness to engagements being the real root of all possibilities in commerce) ; and, secondly, the perfectness and purity of the thing provided ; so that, rather than fail in any engagement, or consent to any deterioration, adulteration or unjust and exorbitant price of that which he provides, he is bound to meet fearlessly any form of distress, poverty or labour which may, through maintenance of these points, come upon him.’ So wrote that great English prophet.

It is also true that a cause worth dying for must be in equal measure worth living for. So that what we have to do is to bring to all these great professions the actuating force of a truly civilised way of life. This inquiry postulates that the righteous way to do this is through a system of conduct or political economy which makes every man free to refuse to tolerate deceit or falsehood in any form or in any member of these great professions, however high or low he may stand in the counsels of them. That is, without at the same time subjecting himself and his dependants to the danger of all that follows being ‘ out of a job ’. In short, we have to honour the right to work of everyone, for it is only under these conditions that honest men can truly survive any of these professions.



15. *The declarations of the rights of man and this political economy*

This inquiry opens up the way for the fullest possible practical realisation of the four points of John Ruskin given in Chapter II, § 10; of points (1) to (5) of the proposed declaration of the rights of man; and of the five points quoted from the American nine-point plan (Chapter II, § 12). It also establishes the fact that when the right to work is honoured, with the provision of adequate sustenance when unable to work and a pension for everyone, when too old to work, the foundation will have been laid for a true science of economics.

16. *Christian teaching and this political economy*

It is to be observed that this political economy will bear a detailed examination in terms of the points put forward by the Oxford Conference on Church, Community and State quoted in Chapter II, § 13. The abolition of unemployment, and the limiting of capital accumulations are called for in tests (1) and (4). The extension of education facilities to training for employment in new capacities as the direction of labour power may require, is called for in test (2); and, the abolition of unemployment makes adequate pensions and disablement allowances a practical possibility, as called for in test (3). It has been claimed that these are not matters for the Church. That they are the affair of professional politicians in which the Church has no right to interfere. Let us therefore approach this matter in another way.

The natural and rightful system respecting all labour is, that it should be paid for at a fixed rate and that good workmen only should be employed in each particular class with the bad workmen relegated to tasks for which their standard of workmanship fits them. The false, unnatural and destructive system is when the bad workman is allowed to offer his work at half price, and either take the place of the good, or force him to work by his competition for an inadequate sum.<sup>1</sup>

With this system of political economy the aim is equality of

<sup>1</sup> Trade unionism as practised does not provide the solution to this problem, as this operates to maintain or impose a minimum wages rate for good and bad workmen alike.



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wages, salaries, fees and dividends, *for equivalent quality of output or services to the community*. A procedure has been worked out which will secure this so far as it can be secured and at the same time tend to eliminate the anomalies which must inevitably arise in the initial agreements as to 'how much to each'. There can be no obligation upon employers to retain the services of anyone who cannot 'hold down his job', or who has not the requisite productive ability both qualitatively and quantitatively. There is, however, a firm obligation to pay the same minimum rates for the same or equivalent jobs whether the workman or managers are competent or not, *if they are so employed*.<sup>1</sup> The tying of the 'levels of pay' to the quality and quantity of output is thus seen to have a moral basis, and to be a vital factor in the elimination of the exploitation of good workmen of all grades by bad workmen.<sup>2</sup>

The most maleficent form of exploitation, however, arises when the right to work of everyone cannot be honoured, as in these circumstances workers have to choose between submitting to exploitation, or to possible death by 'slow starvation' not only for themselves but also for their dependants. The second choice with the planned economy we have built up, however, is a transfer (after training, if this should be necessary) to another job. In short, with this system of public conduct, no man need labour under conditions which are socially and morally bad.

Taking now the point of view of the employer. The scientific balancing of the demand for goods against the supply secures for him a basic price for his produce provided always it is of the quality required. Moreover, every factory making the same design of goods must pay precisely the same wages, salaries, fees and dividends for the same output and quality of goods, and operate upon the same bonus scales for all increases in productivity beyond that required to attain the minimum factory man-hour rate. Also, precisely the same margin must be allowed to the distributory services by everyone. If an employer cannot therefore maintain his plant and attain the necessary minimum factory man-hour rate by his administration, he can only cut his own salary, fees or dividends, as any further cuts will simply result in good workmen

<sup>1</sup> This is, of course, the moral justification for present trade union practice in this matter, but this clearly breaks down when management is compelled to stick to bad workers approved by a trade union.

<sup>2</sup> This is as bad as any other form of exploitation, including capitalism.



moving off to factories where the managements can secure not merely the minimum rates but bonuses also. Put in another way, with this system of conduct inefficient managements cannot sustain themselves at the expense of their workpeople or of anyone else. They will therefore put themselves out of business. An industrial civilisation has no more use for incompetent administrators than it has for bad workmen. But the system allows these men, like bad workmen, to find the level of employment most suited to them. In the ultimate analysis the losses due to such managements are thus a charge upon those who appoint them and not upon those they employ or upon the state. A principal who really desires to help his workmen may in these circumstances do it much more effectively by checking impatient covetousness of gain both in himself and them, rather than by striving incontinently for anything which holds out the possibility of 'easy money'. A further point here is that not only is it the duty of a manufacturer or merchant to apply all his sagacity and energy to producing or obtaining the commodities in which he deals in perfect state, *but he must distribute them at the cheapest possible price consistent with securing to everyone the basic price for their labour.* There must be therefore a continuous searching for improved means of production and distribution, and for ever widening markets. The system outlined gives bonuses for increases in output accompanied by reductions in price as a concession to the contribution made by consumer demand to the co-partnership, thus tending always to the supply of commodities at their lowest possible basic prices.

In these circumstances the honest man of business will have secured to him his rightful place, and dishonest workmen or traders will put themselves out of business by their unsocial acts. Is not this as God intended it to be in a civilised community? Does not the principle of to each what he can grab belong to the jungle? The Church is surely right to condemn with all the power it can command any part of a political economy which does not tend to achieve just this, and to view with grave misgivings any proposals for a corporate economy which if attained might continue to obstruct the operation of these vital moral and social forces which can alone secure to everyone their rightful place in the body politic.

In this procedure also lie the roots of honour, for no man



need then live a life of pretence and falsehood except by choice. Thus when a man finds he is not really fitted for a particular job or post he can honourably make a change without fear of what the future may have in store for him. In these circumstances men with the qualities required of a soldier will naturally tend to become soldiers, and pastors and doctors need not be other than truly called. Similarly, if under parental or other influences an individual takes up work for which he is not really fitted, he can make a change, in fact it will be his duty to do so. Surely this is what is meant by the requirements that 'to every member of the community there must be *made open a worthy means of livelihood*' . . . and that . . . everyone must have opportunities of education suitable for the full development of his particular capacities.

17. *The problem presented by international trading. The definition of profit*

There is no reason why the conduct of trade across a sea or a frontier should differ in any way from the conduct of trade across a river, a mountain range, or from one side of a road to the other side of it. Yet trading between nations has come to be regarded as something quite different from the trading which normally goes on within any civilised community. Why is this? Broadly, it is because the conduct of trade between nations of different customs and habits, each with its own currency, offers greater opportunities for deceit and fraud than does trading between two persons with similar customs and habits and the same currency, and it has become customary to take every possible commercial advantage of them.

'We have to remember here that it is only in labour that there can be profit. In exchange there is only advantage, that is bringing of vantage or power to those affecting the exchange. Thus, one man, by sowing and reaping, turns one measure of corn into two measures. That is profit. Another, by digging and forging, turns one spade into two spades. That is profit. But the man who has two measures of corn wants sometimes to dig; and the man who has two spades wants sometimes to eat:—They exchange the gained grain for the gained tool; and both are the better for the exchange; but though there is much advantage in the trans-



action, there is no profit. Nothing is constructed or produced. Only that which had been before constructed is given to the person by whom it can be used. If labour is necessary to effect the exchange, that labour is in reality involved in the production, and, like all other labour, bears profit. Whatever number of men is concerned in the manufacture, or in the conveyance, has share in the profit; but neither the manufacture nor the conveyance are the exchange, and in the exchange itself there is no profit.

‘There may, however, be acquisition, which is a very different thing. If, in the exchange, one man is able to give what cost him little labour for what has cost the other much, he “acquires” a certain quantity of the produce of the other’s labour. And precisely what he acquires is commonly said to have “made a profit”; and I believe that many of our merchants are seriously under the impression that it is possible for everybody, somehow, to make a profit in this manner. Whereas, by the unfortunate constitution of the world we live in, the laws both of matter and motion have quite rigorously forbidden universal acquisition of this kind. Profit, or material gain, is attainable only by construction or by discovery; not by exchange. Whenever material gain follows exchange, for every *plus* there is a precisely equal *minus*.

‘The general law, then, respecting just or economical exchange, is simply this: There must be advantage on both sides (or if only advantage on one, at least no disadvantage on the other) to the persons exchanging; and just payment for his time, intelligence and labour, to any intermediate person effecting the transaction (commonly called a merchant): and whatever advantage there is on either side, and whatever pay is given to the intermediate person, should be thoroughly known to all concerned. All attempt at concealment implies some practice of the opposite.’<sup>1</sup>

It should now be clear that the confusion which at present exists in the use of the term profit serves to obscure the moral issues involved in the ‘making of a profit’. We have, therefore, avoided the use of this term altogether. It should be clear, however, that the universal application of the principle of basic price will tend to abolish gain by acquisition.

The problem then in international trade is how to ground it

<sup>1</sup> *Unto this last*, John Ruskin.



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upon a firm moral foundation. It is obvious that precepts will not be enough, and that what we need is a procedure which will reduce as far as possible the opportunities which now exist in international affairs for 'making a profit' out of mere exchange. This we have already provided, for within the polity we have visualised, the merchant's law must be just, his weights true and his contracts guileless, or social forces greater than he will sooner or later mete out to him, and to him only, his just deserts.

### 18. *An Economic Federation of States*

Suppose now that all international agreements were to be based upon the honouring of an undertaking :

- (1) To exchange equivalent goods. That is, not to take more goods out of a country than are returned into it, either directly or indirectly, through an international exchange.
- (2) And in this exchange to please no artificial restrictions upon the export of raw materials from any country, and to charge (apart from the extra costs of transportation) prices for them not greater than the normal level of prices for them in the country of origin *less* charges for social services.<sup>1</sup>
- (3) To fix the rate of exchange of the two currencies upon the actual goods exchanged through the medium of scientific banking systems.

What would this procedure do ? It would at once remove all fear and suspicion that any country was seeking to take advantage of any other. It would give free access for all countries alike to the raw materials of the world, but it would not allow their export as surpluses. It would make international trade independent of the internal affairs of the trading countries. That is each country would be free to exercise its sovereign rights within its own borders in any way it may choose, short of interfering with the maintenance of a scientific goods-currency balance and the balancing of imports by exports through an International Exchange.

<sup>1</sup> This simply means that raw materials can be freely bought by other countries in the home market so long as they can supply equivalent goods which are in demand, in exchange.



In these circumstances every country would benefit itself in the degree to which it participated in the international exchange of goods. The standard of living of one country could not be advanced at the expense of that of another. The standards of living in trading countries would rise together although not necessarily at the same rate, and there would be no limit to the prosperity to be achieved in this way, except the faith and ingenuity of man, and his capacity to use the goods produced. If then nations were to agree to operate their banking systems, and thereafter their international economic relationships upon this moral and scientific basis, an Economic Federation of States would be possible, with honest currencies and true free trade as the keystones of the arch of international relationships, for it is written, 'the work of righteousness shall be peace; and the effect of righteousness, quietness and assurance for ever'.

#### 19. *The 'political' significance of this system of conduct*<sup>1</sup>

A thoughtful and unbiased reader will find nothing more in this inquiry than the bringing together of a number of hitherto unrelated economic facts, and the establishing of a number of morally sound operational relationships between them. It is the object of all science to establish operational relationships, and these are a base for economic science, if a true science of economics is ever to be developed. The contention here is that it is because we have not previously established both morally and scientifically sound operational relationships in economics, but only verbal ones, that civilisation is in its present chaotic state. Hence, the only test to which these relationships can be put is operational. Will they work? Experience indicates that they will. Will they be tried? This depends upon you and millions more like you. Do you want a true economic security? Do you see now that it is commercially and scientifically, as well as morally true, that there can be no real and lasting security for you until there is real and lasting security for everyone else? If you do then this inquiry shows that the things to work for are:

(1) That no man shall be denied the right to work. (This

<sup>1</sup> The term 'political' is here used in its modern sense.



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includes the provision of the facilities for education and training necessary for the exercise of this right.)

- (2) That everyone shall be given *in return for their service to the community* adequate sustenance when *unable* to work and an adequate pension when too old to work. But only in return for services to the community, for it is a law of civilisation, when work is available, that if a man will not work neither shall he eat.
- (3) That there shall be rational co-ordination in the direction of labour power, so that waste is at a minimum, and all who wish to work, shall have work to do.
- (4) That the banking system shall be scientifically operated to provide and maintain an honest currency. This requires :
  - (a) That every business shall operate through a banking account.
  - (b) That public works being social enterprise shall in future be financed socially (without interest charges) and not as private enterprise.
  - (c) The holding of a balance between the production of consumers' goods and public works such that there is no unemployment.
  - (d) The acceptance of a scientifically established limit to savings, for above this limit savings are worthless, and serve only to create unemployment. You should note here that this limit cannot be reached unless all the true capital requirements of industry are being met (including investments of spare-money), and that when savings pass this limit wages must be proportionately increased.
  - (e) The maintenance of an open currency, and the provision of currency by the state.
- (5) That minimum wages, salaries, fees and capital remuneration be tied to a minimum standard of output, and that all increases in output above this figure be distributed by bonuses on agreed scales between the parties with a claim to them, including the customers.
- (6) That exports shall not carry charges for our social services,



- and that imports shall (that is, that we pay for them ourselves), and that a Foreign Exchange shall be the starting-point for international economic relationships.
- (7) That the prices of commodities shall be fixed on the basic cost principle by manufacturers and distributors together, so that distributors cannot offset advances in methods of production to their own advantage at the expense of the manufacturers, and of the community as a whole.
  - (8) That we develop a national store to take the place of the national debt.

No section of a community is here being called upon to make sacrifices, but simply for a co-operation not determined by arguments or modern political views but by moral and scientific truths, so that A STATE IN WHICH NO SECTION OF THE COMMUNITY HAS ANY REAL SECURITY SHALL BE CHANGED INTO A STATE WHERE EVERYONE IS ECONOMICALLY SECURED. This being so, the fight to progress in civilisation is not between the haves and have-nots, like two dogs fighting for a bone, but between belief and unbelief. Between those who believe that God has provided for the needs of all men, and those who do not. For since He has so provided, the poverty and misery in the world can be due only to labour mismanaged or misapplied, and neither religion nor science are fulfilling their true functions if they do not together sweep the hideous heresy that God has not so provided from the earth.

*Handwritten signature*  
30/9/54



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